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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF
PIMA UTILITY COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION OF
THE FAIR VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
WATER RATES AND CHARGES FOR UTILITY
SERVICE BASED THEREON.

Docket No. W-02199A-11-0329

IN THE MATTER OF THE APPLICATION OF
PIMA UTILITY COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION OF
THE FAIR VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
WASTEWATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

Docket No. SW-02199A-11-0330

RUCO'S NOTICE OF FILING

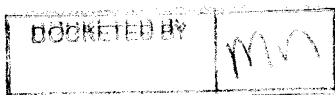
The Residential Utility Consumer Office ("RUCO") hereby provides notice of
filing the Direct Testimony of William A. Rigsby, Timothy J. Coley and Robert B.
Mease, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 27th day of March, 2012.

Arizona Corporation Commission

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MAR 27 2012



Daniel W. Pozefsky
Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 27th day
3 of March, 2012 with:

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5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007

8 COPIES of the foregoing hand delivered/
9 mailed this 27th day of March, 2012 to:

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PIMA UTILITY COMPANY

**DOCKET NO. W-02199A-11-0329
DOCKET NO. SW-02199A-11-0330**

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 27, 2012

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EXECUTIVE SUMMARY

The Residential Utility Consumer Office recommends that the Arizona Corporation Commission reject Pima Utility Company's request to recover income taxes of its shareholders in rates for the company's Water and Wastewater Divisions.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My Name is William A. Rigsby. I am the Chief of Accounting and Rates for the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please describe your qualifications in the field of utility regulation and your educational background.

A. I have been involved with utility regulation in Arizona since 1994. During that period of time I have worked as a utilities rate analyst for both the Arizona Corporation Commission ("ACC" or "Commission") and for RUCO. I hold a Bachelor of Science degree in the field of finance from Arizona State University and a Master of Business Administration degree, with an emphasis in accounting, from the University of Phoenix. Appendix 1, which is attached to my direct testimony on the cost of capital issues in this case, further describes my educational background and also includes a list of the rate cases and regulatory matters that I have been involved with.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present RUCO's position on Pima Utility Company's ("Pima" or "Company") request to collect income taxes in rates for its Water and Wastewater Divisions. Pima's request was presented in

1 the Company's Water and Wastewater Division applications for permanent
2 rate increases which were filed with the Commission on August 29, 2011.
3 The rate applications were consolidated for ratemaking purposes pursuant
4 to a Procedural Order issued on September 30, 2011 ("Consolidated
5 Application"). Pima is using a test year ended December 31, 2010 (Test
6 Year).

7
8 **Q. Will RUCO be filing testimony on the required revenue, rate design**
9 **and cost of capital issues associated with Pima's Application?**

10 **A.** Yes. RUCO witness Robert B. Mease and Timothy J. Coley will provide
11 direct testimony presenting RUCO's recommendations on required
12 revenue and rate design for Pima's Water and Wastewater Divisions
13 respectively. I have also filed, under separate cover, direct testimony on
14 the cost of capital issues in this case.

15
16 **Q. Briefly describe Pima.**

17 **A.** Pima is a Class B Arizona public service corporation. The Company
18 serves the Sun Lakes retirement community which is located
19 approximately 25 miles southeast of Phoenix in Maricopa County.
20 According to Pima's Consolidated Application, the Company's Water
21 Division had 10,175 service connections and the Company's Wastewater
22 Division had 10,050 connections during the Test Year. Pima's current
23 water rates and charges were established in Decision No. 58743, dated

1 August 11, 1994 using a test year ending December 31, 1992. The
2 Company's present wastewater rates and charges were established in
3 Decision No. 62184, dated January 5, 2000 using a test year ended
4 December 31, 1997.

5
6 **Q. Is this your first case involving Pima?**

7 A. No. I testified on behalf of RUCO during Pima's last Wastewater Division
8 rate case in 1999.

9
10 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

11 **Q. What is RUCO recommending on Pima's request to collect income**
12 **taxes in rates for the Company's Water and Wastewater Divisions?**

13 A. RUCO recommends that the Commission reject Pima's request to collect
14 income taxes in rates for the Company's Water and Wastewater Divisions.

15
16 **INCOME TAX EXPENSE**

17 **Q. How is Pima organized for income tax purposes?**

18 A. Pima is organized as an S corporation under Subtitle A, Chapter 1,
19 Subchapter S of the Internal Revenue Code.

20
21
22 ...
23

1 **Q. Did Pima pay income taxes as a corporate entity during the Test**
2 **Year?**

3 A. No. This can be seen in the "Test Year Book Results" column exhibited in
4 Schedule C of Pima's Consolidated Application.

5
6 **Q. Why doesn't Pima pay income taxes?**

7 A. Pima is not required to pay income taxes as a corporate entity because
8 the principals of the Company chose to organize the business as an S
9 corporation. As explained by the Internal Revenue Service ("IRS")¹, unlike
10 C corporations, "S corporations are corporations that elect to pass
11 corporate income, losses, deductions and credit through to their
12 shareholders for federal tax purposes. Shareholders of S corporations
13 report the flow-through of income and losses on their personal tax returns
14 and are assessed tax at their individual income tax rates. This allows S
15 corporations to avoid double taxation on the corporate income. S
16 corporations are responsible for tax on certain built-in gains and passive
17 income."

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¹ <http://www.irs.gov/businesses/small/article/0,,id=98263,00.html>

1 **Q. Have you reviewed the direct testimony of AWC witnesses Ray L.**
2 **Jones and Thomas J. Bourassa that addresses Pima's request to**
3 **collect income taxes in rates for the Company's water and**
4 **Wastewater Divisions?**

5 **A. Yes. Both Mr. Jones and Mr. Bourassa present similar arguments why**
6 **they believe that Pima should be permitted to collect income taxes of their**
7 **shareholders in rates despite the fact that the Company is an S**
8 **corporation that pays no federal or state income taxes as a corporate**
9 **entity.**

10
11 **Q. Does RUCO believe that the arguments for including income taxes of**
12 **its shareholders in rates presented by the Company's witnesses**
13 **have any merit?**

14 **A. No. Both Mr. Jones and Mr. Bourassa somehow believe that Pima's**
15 **shareholders are at a disadvantage to shareholders of a C corporation**
16 **who face double taxation on corporate income. Both Mr. Jones and Mr.**
17 **Bourassa argue that Pima's shareholders receive a lower rate of return on**
18 **their equity investments than what shareholders of S corporations receive.**

19
20 **Q. Why does RUCO believe that the Company's arguments have no**
21 **merit?**

22 **A. First and foremost, Pima's shareholders made a conscious business**
23 **decision to elect S corporation status because that is the form of**

1 organization that best served their personal needs. The Company
2 admitted as much in a follow-up response to ACC Staff Data Request
3 CSB 1.4 dated March 8, 2012 in which Pima's Senior Vice President and
4 Chief Financial Officer, Mr. Steven Soriano, stated the following:

5 "The S-Corporation election improves the ability of a startup utility
6 to raise capital from the stockholders while at the same time
7 lowering the total amount of capital needed. The end result is a
8 better chance of a financially healthy utility which is a benefit to
9 ratepayers and in the public interest. For example, the pass-
10 through of net income and net losses to the stockholders can
11 provide benefit to the startup utility, its customers and the
12 shareholders. If there are profits, the shareholders subsidize the
13 start-up company by paying taxes that would, absent the S
14 Corporation election, be paid from corporate sources. If there are
15 tax losses, the stockholders may be able to take immediate
16 advantage of the losses, possibly moderating the negative impact
17 of the losses on the stockholders return on their investment."
18

19 Based on the response cited above, the election to organize as an S
20 corporation benefited Pima's shareholders just as much as Pima's
21 ratepayers from the standpoint that it aided in the financial health of the
22 Company. Pima's shareholders could have organized their company as a
23 C corporation had they wanted to and nothing would have prevented them
24 from doing so. Clearly, Pima's shareholders believed that S corporation
25 status was the most advantageous form of organization for them during
26 the company's startup phase. Second, if the Company believes this form
27 of organization is affecting their earnings or not beneficial for any other
28 reason, the Company can at any time reorganize under another form of
29 organization. The Company's actions indicate that the benefit to

1 shareholders of avoiding double taxation overrides the Company's
2 concerns regarding its earnings.

3
4 **Q. Do you believe, as Mr. Soriano does, that S corporation shareholders**
5 **subsidize a utility when they pay income taxes?**

6 **A.** No. Pima's shareholders cannot possibly subsidize the Company in
7 regards to income tax liability because the Company, as a corporate
8 entity, has no income tax liability to begin with. The only tax liability that
9 exists is the personal income tax liability of Pima's shareholders and that
10 is because of their election to organize the Company as an S corporation.
11 It is clear from Mr. Soriano's response above that S corporation
12 shareholders are simply paying income taxes, at their individual tax rates,
13 on their own personal income (i.e. their proportionate share of the
14 distribution of operating income). If the Commission were to allow a
15 regulated utility organized as an S corporation, such as Pima, to collect
16 income taxes in rates when the utility pays no taxes, the utility's
17 ratepayers would be subsidizing the utility's shareholders by paying their
18 personal income taxes for them – something that would not occur with a C
19 corporation that actually has a tax liability.

20
21
22 ...
23

1 **Q. Please address the argument that S corporation shareholders**
2 **receive a lower return on their investment than shareholders of C**
3 **corporations.**

4 A. A regulated utility organized as an S corporation receives a rate of return
5 or operating income that is calculated in the same manner as a regulated
6 utility that is organized as a C corporation. Hypothetically speaking, a
7 utility with a rate base of \$12.5 million and a weighted cost of capital of
8 8.00 percent would receive an operating income of \$1 million² whether it is
9 organized as an S corporation or a C corporation. If the entire \$1,000,000
10 in operating income were distributed to the utility's shareholders, those
11 shareholders would pay assessed taxes on their proportionate share of
12 income at their individual income tax rates whether the utility is organized
13 as an S corporation or a C corporation. In the case of a C corporation,
14 shareholders may not have any income to pay taxes on should the utility's
15 board of directors elect not to distribute any earnings in the form of
16 dividends.

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² Rate Base x Rate of Return = Operating Income = \$12,500, 000 x 8.00% = \$1,000,000

1 **Q. If the example above is correct, then why are Mr. Jones and Mr.**
2 **Bourassa making the argument that C corporation shareholders**
3 **have an advantage despite the double taxation issue and the fact**
4 **that C corporation shareholders may not receive any income from**
5 **their investment?**

6 **A. The rationale for this argument, that has also been advanced during a**
7 workshop³ on water issues ordered under Decision No. 71878, is that a
8 parent company which is the sole shareholder of a utility subsidiary
9 organized as a C corporation retains income taxes paid by ratepayers
10 when it files a consolidated income tax return that results in no income
11 taxes owed. This rationale is flawed from the standpoint that the C
12 corporation subsidiary has a tax liability regardless of whether or not its
13 parent owes taxes in any given year. Quite simply, it is not a certainty that
14 the utility's parent will not have to make tax payments every year in which
15 it files an income tax return. It also has to be remembered that the utility
16 organized as a C corporation may not always be a subsidiary of a parent
17 company. It is entirely possible that the utility could be spun off by its
18 parent company in which case the utility would be a stand-alone corporate

³ Pursuant to Decision No. 71878, dated September 14, 2010, water industry stakeholders, including Staff of the Arizona Corporation Commission and Global Utilities, were ordered to conduct a series of workshops under an existing generic docket (opened on March 8, 2006) for the purpose of looking at how best to achieve the Commission's objectives with regard to encouraging the acquisition of troubled water companies and the development of regional infrastructure where appropriate. A Staff Report is due to be filed sometime around March 19, 2012.

1 entity that is required to pay federal and state income taxes because of its
2 C corporation form of organization.

3
4 **Q. Has the Commission typically allowed S corporations to collect**
5 **income taxes in rates in the past?**

6 **A.** No. The Commission has typically not allowed income tax expense for S
7 corporations or Limited Liability Companies⁴ ("LLCs") when the owners of
8 the corporate entity enjoy the benefit of pass-through taxation. This was
9 true in Pima's last rate case for the Company's Wastewater Division⁵ in
10 which the Commission rejected the Company's argument for an increase
11 in its rate of return because of its S corporation status. The most recent
12 proceeding that I was involved with where the issue of including income
13 taxes in rates was addressed was a rate case filed by Johnson Utilities
14 LLC.⁶ In both cases the Commission did not allow income taxes to be
15 collected in rates.

16
17
18 ...

19

⁴ A Limited Liability Company (LLC) is a business structure allowed by state statute. LLCs are popular because, similar to a corporation, owners have limited personal liability for the debts and actions of the LLC. Other features of LLCs are more like a partnership, providing management flexibility and the benefit of pass-through taxation. Source: <http://www.irs.gov/businesses/small/article/0,,id=98277,00.html>

⁵ Decision No. 62184, dated January 5, 2000

⁶ Decision No. 71854, dated August 24, 2010

1 **Q. Why has the Commission rejected the inclusion of income taxes in**
2 **rates for S corporations and Limited Liability Companies?**

3 A. The best answer to that question was expressed in Decision No. 71445,
4 dated December 23, 2009 on Sunrise Water Co., a Class B water provider
5 organized as an S Corporation like Pima. Pima's witness Mr. Jones also
6 testified before the ACC in that particular proceeding. In its final decision
7 on Sunrise Water Co., the Commission rejected Mr. Jones arguments to
8 include income taxes in rates and, in Decision No. 71445, stated the
9 following:

10 "Although we are interested by the apparent split of opinion
11 among the public utility commissions in various states in terms of
12 the appropriateness of recognizing income tax recovery for pass-
13 thru entities and may like to explore this further in a different
14 docket when time and resources allow, we believe that at this time
15 it is appropriate to rely upon the bulk of our own prior cases
16 involving pass-thru entities in determining the appropriate
17 treatment of Sunrise's request to recover pro forma income tax
18 expenses in this case. The Commission has established a long-
19 standing policy of denying recovery of income tax expenses for
20 pass-thru entities and apparently has varied from it, at least in
21 recent years, only as an exception made under unique
22 circumstances or as an inadvertent error. The Commission's
23 policy is apparent in the Consolidated case; was expressly stated
24 in the Camp Verde case; is strongly suggested and supported by
25 S corporations' and LLCs' currently almost unanimously not
26 requesting recovery of income tax expenses in their rate
27 applications; is apparent in the almost complete lack of discussion
28 regarding the issue in recent Commission decisions; and is
29 apparent from Staff's testimony in this case. We have
30 inadvertently allowed recovery of income tax expenses in several
31 isolated incidents involving pass-thru entities, most recently for
32 Wickenburg Ranch. This was done in error, not as an indication
33 of a change in the Commission's policy. We are confident that the
34 errors will not be repeated in the near future and that the
35 Wickenburg Ranch anomaly, which is the only un-remedied
36 anomaly of which we are aware at this time, will be remedied in its
37 next rate case. Because it has long been our policy not to allow
38 recovery of these hypothetical income tax expenses for non-
39 taxable pass-thru entities, because we recognize that C

1 corporation subsidiaries included in a parent corporation's
2 consolidated income tax return are different than an S corporation
3 because they are actually taxable entities, because we have no
4 documentary evidence before us of Sunrise's income passed
5 through to Mr. Campbell or that Mr. Campbell has actually paid
6 any income taxes on that income," and because Sunrise can
7 easily become a C corporation if he chooses to do so in order to
8 obtain recovery of income tax expenses in future rate cases, we
9 will not allow Sunrise to recover any income tax expenses in this
10 matter. In addition, because allowing recovery of accumulated
11 deferred income tax ("ADIT") as an addition to rate base, as
12 proposed by Sunrise and recommended by Staff, would be
13 inconsistent with the disallowance of recovery of income tax
14 expense, we also will not allow the proposed addition of \$143,632
15 in ADIT to Sunrise's rate base."
16

17 The Commission later reiterated this position in the Johnson Utilities, LLC
18 case cited above:

19 "We do not share the Company's view that inclusion of the
20 Company's members' pass-through tax liability in customers' rates
21 would lead to a fair, equitable, and non-discriminatory result. As
22 we determined in Decision No. 71445 (December 23, 2009), it is
23 not appropriate or in the public interest to allow pass through
24 entities such as the Company to recover income tax expenses
25 through rates. The Company's request is not reasonable and will
26 be denied."
27

28 **Q. Is it true that the Federal Energy Regulatory Commission ("FERC")**
29 **allows for the inclusion of income taxes in rates for certain**
30 **companies that it regulates?**

31 **A.** Yes. It is true that the FERC allows for the inclusions of income taxes in
32 rates for rate-regulated pipeline companies organized as master limited
33 partnerships ("MLPs"), which, like S corporations and LLC's, are pass-
34 through entities for tax purposes. However the FERC's pipeline policy,

1 and the court decision⁷ that upholds it, has not been without criticism.
2 Perhaps the most noteworthy critic is the same Federal Court of Appeals
3 judge who upheld FERC's most current policy. Originally, in 2004, the
4 same judge struck down FERC's attempt to "create a phantom tax in order
5 to create an allowance to pass through to the ratepayer."⁸

6
7 In an article that appeared in the June 21, 2010 issue of Tax Notes
8 (Exhibit 1), David Cay Johnston, a former tax reporter for the New York
9 Times who teaches at the Syracuse University College of Law, makes the
10 following points:

11 "Wouldn't it be fantastic if someone else paid your income taxes
12 for you? Imagine all that extra money in your bank account. You
13 could pay off your debts, save, and even splurge.

14
15 Of course, for the person who paid your income taxes it would be
16 awful. They would have to pay their own income taxes and then,
17 out of what was left, pay yours.
18 Congress would never enact such a law, right?

19
20 The good news is that Congress has not enacted such a law. The
21 bad news is that buried deep in the fine print of the Federal
22 Register is a regulatory rule that has the same effect.

23
24 The requirement that forces you to pay the personal income taxes
25 of others applies – for now – only to owners of rate-regulated
26 pipelines organized as master limited partnerships, or MLPs.

27
28 It is not surprising if you have never heard about this tax-shifting
29 rule. Unless you dig into the inordinately arcane proceedings of
30 the Federal Energy Regulatory Commission (FERC), a small
31 government agency that wields enormous economic power, you
32 would be in the dark. The commission gets almost no news

⁷ Exxon Mobile Oil Corp. vs. FERC et al., 487 F.3d 945, 376, U.S. App. D.C. 259 (D.C. Cir. 2007)

⁸ The FERC policy and its history will be briefed from a legal standpoint in RUCO's closing legal briefs.

1 coverage. The very few, and brief, news reports on the cases
2 related to the MLP charge missed the tax issue.”
3

4 The opinions expressed by Mr. Johnston on the FERC pipeline policy are
5 just as relevant in this case. Pima’s ratepayers, or for that matter Arizona
6 ratepayers, should not have to pay personal income taxes of shareholders
7 of utilities that are organized as S corporations or LLCs (that do not
8 request to be treated as a C corporation for income tax purposes).
9

10 **Q. Have a large majority of state commissions adopted the FERC policy**
11 **regarding the inclusion of income taxes in rates?**

12 **A.** It does not appear so. Based on information that was presented during
13 the workshop on water issues noted earlier, Kansas, Pennsylvania,
14 Wisconsin, New Mexico and Texas have adopted different versions of
15 what are known as the Kansas Doctrine and the New Mexico Rule that
16 permit the inclusion of income taxes in rates. Based on its own research,
17 RUCO has found that Colorado and Wyoming also allow for inclusion of
18 income taxes in rates. On the other hand, Florida, Indiana, Illinois,
19 Kentucky, New Hampshire and Vermont do not include income taxes in
20 rates.
21
22

23 ...
24

1 **Q. Does RUCO believe that the Commission should adopt the FERC's**
2 **policy?**

3 A. No. RUCO has not changed its position from the Johnson Utilities, LLC
4 case cited earlier in my testimony. RUCO continues to believe that
5 Arizona should not adopt a policy just because an agency of the federal
6 government has chosen to do so. The policy must make sense for
7 Arizona. In this case, Pima has not shown why it makes sense for the
8 Company's ratepayers to pay the income taxes of the Company's
9 shareholders when the Company's shareholders, who enjoy the benefit of
10 pass-through taxation, elected to organize Pima in such a way that the
11 Company is not taxed.

12
13 **Q. What is RUCO's final recommendation regarding Pima's request to**
14 **include income taxes in rates for the Company's Water and**
15 **Wastewater Divisions?**

16 A. RUCO recommends that the Commission reject Pima's request to include
17 income taxes in rates for the Company's Water and Wastewater Divisions.

18
19 **Q. Does your silence on any of the issues, matters or findings**
20 **addressed in the testimony of the Company's witnesses constitute**
21 **your acceptance of their positions on such issues, matters or**
22 **findings?**

23 A. No, it does not.

1 **Q. Does this conclude your direct testimony on Pima?**

2 **A. Yes, it does.**

EXHIBIT 1

Master Limited Partnerships: Paying Other People's Taxes

David Cay Johnston | Jun. 21, 2010 10:40 AM EDT

Wouldn't it be fantastic if someone else paid your income taxes for you? Imagine all that extra money in your bank account. You could pay off your debts, save, and even splurge.

Of course, for the person who paid your income taxes it would be awful. They would have to pay their own income taxes and then, out of what was left, pay yours.

Congress would never enact such a law, right?

The good news is that Congress has not enacted such a law. The bad news is that buried deep in the fine print of the *Federal Register* is a regulatory rule that has the same effect.

The requirement that forces you to pay the personal income taxes of others applies -- for now -- only to owners of rate-regulated pipelines organized as master limited partnerships, or MLPs.

It is not surprising if you have never heard about this tax-shifting rule. Unless you dig into the inordinately arcane proceedings of the Federal Energy Regulatory Commission (FERC), a small government agency that wields enormous economic power, you would be in the dark. The commission gets almost no news coverage. The very few, and brief, news reports on the cases related to the MLP charge missed the tax issue.

You would never know from looking at your utility bills and gas station receipts that the federal government has let one type of big business drill a hole in your pocket to collect income taxes, just as when looking across the surface of the planet, you cannot see the rich deposits of oil and natural gas buried under miles of water, soil, and rock. The cost is embedded in the sums your local utility or gas station pays for the natural gas and petroleum delivered via pipeline.

While you may not have heard about MLPs, readers of *Barron's* and other publications for savvy investors have. In approving cover stories, *Barron's* and other investment journals tout MLPs as a way for investors to earn returns of 8 percent or more each year while paying little or no income tax.

In the shadows, business can use government to drill holes into consumer and producer pockets through inflated prices. Now one industry has applied this to taxes. This column casts a focused light on such activity to encourage disclosure, integrity, and fairness in taxation.

If this tax-shifting policy continues unchecked, you can expect one thing: well-funded and determined efforts to expand it to other rate-regulated monopolies. Given the complexity of the issue, hiding the tax shifting would be easy -- or at least it would have been until now -- by obscuring the issues in an era when few news organizations report on regulations. Pipelines are big, but small-time compared with electric, gas, cable, water utilities, and the railroads. Your interest is too small to put up a fight against this tax shift, but is big enough to encourage owners to ask the government to enable more such tax gouging. Get government to concentrate just a penny a day from every American and you collect a billion dollars annually year after year. You and I probably will not fight against being ripped off for a few bucks a year, but any enterprise will fight for a slice of a billion.

All that is needed to expand this tax shifting is a change in federal law -- a change so minor it does not even require a sentence to be added to section 7704 (d)(1)(E), a list of industries that can be owned through publicly traded partnerships without being subject to the corporate income tax. As one lawyer deeply involved in the pipeline case told me: "The electric utilities would be

master limited partnerships now except that when the law was changed, the Edison Electric Institute was uncharacteristically asleep at the switch."

At the core of the tax issue are two long-standing principles of rate regulation that are fundamental to fairness and integrity. The first is that owners of legal monopolies are entitled to recover all of their costs and earn the return on equity needed to attract capital for their level of risk. The second is that customers can only be charged actual expenses so that regulated prices, called rates, are just and reasonable.

The FERC pipeline policy, and the court decision upholding *FERC*, destroy both of these principles. They don't just harm them, they destroy them, something Judge David Sentelle and two other appeals court judges somehow failed to realize in the specious reasoning they used to justify this tax-shifting outrage in 2007. (For the case, see *ExxonMobil Oil Corp. v. FERC et al.*, 487 F.3d 945, 376 U.S. App. D.C. 259 (D.C. Cir. 2007).)

The tax-shifting issue arises because Congress imposes two levels of taxes on corporate profits, but only one on partnerships. Historically pipelines were organized as corporations. To determine the rates charged to customers, a pipeline includes all of its costs and a rate of return set by FERC or, for intrastate pipelines, a state-level regulatory agency. For a traditional corporate-owned pipeline, these costs include the corporate income tax on company profits. However, the income taxes of individual investors have never before counted as a cost of providing service.

Forcing You to Pay Other's Individual Income Taxes			
Corporate profits are taxed twice, partnership profits only once, yet the government lets pipelines owned by partnerships collect the same tax as corporations. The result: Partnership investors get a 75 percent larger return because you pay the partners' personal income taxes.			
This chart assumes a monopoly pipeline is allowed a 10 percent after-tax return of equity	Corporation Under Actual Cost Rules at 42.7 Percent	Master Limited Partnership Under Actual Cost Rules	Master Limited Partnership Under New Fake Tax Rules
Pre-tax profit Under Government Set Prices	\$175	\$100	\$175
Less 42.7% Corporate Income Tax Paid on Profit	\$(75)	\$—	\$—
Net Pipeline Profit After Taxes	\$100	\$100	\$175
Less Owner's Personal Income Tax at 35 Percent	\$(35)	\$(35)	\$(61)
Owner's After-tax Income	\$65	\$65	\$114
Increase in after-tax income to owner by including fake tax			\$49
Percent increase in after-tax income			75%
Source: Calculations by author from Federal District Court of Appeals decision in <i>BP West Coast</i>			

Products v. FERC.

The 1986 Tax Reform Act allowed publicly traded partnerships in the pipeline business to escape double taxation even though their shares, called units, trade on the New York Stock Exchange and other bourses just like shares of a corporation. With an MLP, thanks to this law, pipeline profits and losses flow through to the partners, and so does any income tax obligation.

Even though the MLP does not pay the corporate income tax, FERC lets MLP pipelines include income tax in the rates charged to customers. FERC policy assumes the top marginal tax rate. Since the only income tax paid is by individual owners, this means that the rates include the individual income tax the MLP investors owe. In other words, you are forced to pay the income taxes of the MLP investors when you buy natural gas or petroleum products that were transported on such a pipeline.

Just how the income taxes you pay for others are assigned is another matter. But you must pay regardless of how the tax money is divvied up under the agreement between the general partner and the limited partners.

Actually, it is worse than that. The regulatory rule, upheld by the court of appeals, is that you must pay the income taxes of the pipeline partners even if they are only "potential" taxes. No actual income tax need be paid.

What exactly can be just or reasonable about forcing you to pay the income tax of another person who may not even pay tax?

Government regulation of monopolies like pipelines, electric utilities, and railroads is supposed to act as a proxy for the market. But just as a market requires buyers and sellers who are equally informed and are not coerced, regulated pricing requires treating both owners and customers equally. The introduction of MLPs into pipeline ownership created opportunities for the owner side to tilt the economic playing field, and FERC went along, going out of its way to rationalize this unfair tax policy.

Regulatory agencies often become captives of the industries they are supposed to regulate, seeing the world through the eyes of the regulated and blinding themselves to the concerns of customers. This is a natural human tendency, seen also in those journalists who identify with their sources rather than their audience, a now widely recognized problem in Washington coverage.

Judge Sentelle and his colleagues acted like they too have been captured by the pipeline industry, applying faulty reasoning that does not merely damage the just and reasonable standard but destroys it.

The first time the issue arose, in a 2004 case known as *BP West Coast Products*, Judge Sentelle and two other associates stood steadfast for fairness for only including actual taxes in rates (*BP West Coast Products LLC v. FERC et al.*, 374 F.3d 1263, 362 U.S. App. D.C. 438 (D.C. Cir. 2004)).

In *BP West Coast*, Judge Sentelle and his colleagues held that only actual taxes can be included in pipeline rates. FERC had included a 42.7 percent income tax allowance in rates for the SFPP Pipeline, an MLP pipeline whose creation traces back to the Santa Fe railroad rights of way.

"There is no question," Judge Sentelle held in *BP West Coast*, "that as a general proposition a pipeline that pays income taxes is entitled to recover the costs of the taxes paid from its

ratepayers." (See *City of Charlottesville v. FERC*, 774 F.2d 1205, 249 U.S. App. D.C. 236. (D.C. Cir. 1985).)

Judge Sentelle walked through the history with nuanced clarity and then walloped FERC: "We cannot conclude that FERC's inclusion of the income tax allowance in SFPP's rates is the product of reasoned decision making."

After hitting FERC with a metaphorical two-by-four, Judge Sentelle made a crucial observation. He quoted FERC's own policy:

Because the corporate tax is an extra layer of taxation, the Commission includes an element for the corporate taxes in the cost-of-service to ensure that the regulated entity has the opportunity to earn its allowed return on equity. However, there is no allowance for the taxes paid by the owners of the corporation.

The court held that regulators "cannot create a phantom tax in order to create an allowance to pass through to the ratepayer" and that a regulated limited partnership pipeline company cannot be allowed to collect "for the phantom income taxes it did not pay."

You would think that would be the end of it. But not when vast sums are at stake.

The math here is stunning. When rates include a tax that does not exist, the investors make out like, well, bandits. Investors in an MLP pocket 75 percent more in after-tax profits than they would if they invested in a traditional corporation owning a pipeline.

You will not find this math in Judge Sentelle's 2007 decision. Had he done the math, would the outcome have been different?

The broad issues here have continued through five administrations, so the makeup of the commissioners is bipartisan. The commissions have always issued decisions that tended to favor owners over consumers, but during the George W. Bush administration things went further.

FERC responded to the 2004 decision not by reopening the formal rate-making process, but by inventing something outside regulatory law. The commission in 2005 called this extraordinary procedure a "statement of policy."

Because that statement was not a formal case, it meant that there was no prohibition against lobbyists meeting privately with commissioners. That is, the *ex parte* rules did not apply. The commission considered four options after *BP West Coast*, including ignoring taxes and what it ultimately did, which was to find that if any tax might be owed by some owner, the maximum tax rate should be included in the authorized rates charged customers.

Judge Sentelle made clear that his panel could have found grounds to reject the new policy, but then he approved it, resting his decision on the thinnest of reeds by finding that FERC "justified its new policy with reasoning sufficient to survive our review."

"We hold that the Commission's income tax allowance policy was not arbitrary or capricious or contrary to law," the decision stated.

The tax shifted to consumers looks to be as much as \$1.6 billion a year for gas pipelines and \$1.3 billion more for petroleum pipelines. Industry data show oil pipeline profits are an eye-popping 42 percent of revenues, more than four times the margin for the 12,000 largest corporations.

This estimate has to be heavily hedged because, amazingly, FERC does not issue any statistical reports on either the cost of this tax transfer or of the underlying data from which a solid estimate could easily be calculated. A new law requiring either truth, or at least transparency, in regulations that shift tax burdens would help here, but the Wall Street-friendly Obama administration seems unlikely to take up such a cause.

The commission, at this writing, is conducting an inquiry into the gaps in its natural gas pipeline financial reporting systems, which mix incompatible accounting theories and fail to ask for some basic data. The oil pipeline data reporting is so loosely administered that 1 in 4 pipeline companies evidently does not even file the required annual reports, known by the bizarre name of "Page 700." Maybe someday we can determine just how much is being taken from you to pay the income taxes of individual pipeline investors.

The tax shifting is also inflated by a curious FERC practice. FERC has acknowledged that there is some over-collection by oil pipelines and yet it continues to grant rate hikes based not on costs, but on an index. This only worsens the over-collection from customers. Because there are virtually no added costs, the over-collection is pure profit except for the income tax burden, which is shifted to customers. This forces consumers to pay even more to cover assumed income tax costs even though no taxes may be going to the government. This is neither just nor reasonable and that two branches of government, the executive and the courts, allow this should be investigated by the third branch of our government, Congress.

Whatever the tax-shifting cost, it could easily balloon to much more — well north of a billion dollars per month for customers of utilities and railroads. Adding them to the list of industries eligible to have publicly traded MLPs that are subject to just one tier of tax would force anyone who boils water or drives a car to pay the individual income taxes of a thin slice of wealthy investors. Given the stakes, it is more than reasonable to expect those who want you to pay their income taxes to exploit FERC's ridiculous policy and Judge Sentelle's faulty reasoning to form the basis for expanding the new rules.

The one ray of hope is that the California Public Utilities Commission had a recent case involving the portion of the SFPP that operates within the Golden State. A proposed decision would flatly reject the idea that an untaxed entity can collect income taxes in its rates.

Taxes should not be hidden, as David Ricardo and Adam Smith taught. They should also not be shifted from those who gain to those who are captive customers of monopolies. But the trend in America under both parties is away from markets and toward a subtle expansion of corporate socialism, under which profits are concentrated through government action and losses are socialized through bailouts. Now we have income tax burdens forcibly shifted from the wealthy few to the many through regulation.

David Cay Johnston is a former tax reporter for *The New York Times*. He teaches at Syracuse University College of Law and is the author of two books about taxes, *Free Lunch* and *Perfectly Legal*.

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PIMA UTILITY COMPANY

**DOCKET NO. W-02199A-11-0329
DOCKET NO. SW-02199A-11-0330**

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY

ON

COST OF CAPITAL

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 27, 2012

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EXECUTIVE SUMMARY

Based on the Residential Utility Consumer Office's ("RUCO") analysis of Pima Utility Company's amended application for a permanent rate increase, filed with the Arizona Corporation Commission ("ACC" or "Commission") on August 5, 2011, RUCO recommends the following:

Cost of Equity – RUCO recommends that the Commission adopt a 9.40 percent cost of equity. This 9.40 percent figure falls just under the high side of the range of results obtained in RUCO's cost of equity analysis, and is 110 basis points lower than the 10.50 percent cost of equity capital proposed by Pima Utility Company in its application for a permanent rate increase.

Cost of Debt – RUCO recommends that the Commission adopt Pima Utility Company's proposed 7.696 percent cost of Long-term debt.

Capital Structure – RUCO recommends that the Commission adopt Pima Utility Company's proposed capital structure comprised of 50.97 percent equity and 49.03 percent long-term debt.

Weighted Average Cost of Capital – RUCO recommends that the Commission adopt RUCO's recommended 9.01 percent weighted average cost of capital ("WACC") which is the weighted cost of RUCO's recommended costs of common equity and long-term debt, and is 46 basis points lower than the 9.47 percent WACC being proposed by Pima Utility Company.

RUCO disagrees with a number of inputs that Pima Utility Company's cost of capital consultant used in both the discounted cash flow ("DCF") model and the capital asset pricing model ("CAPM") which were used to develop Pima Utility Company's proposed cost of common equity estimate of 10.50 percent. This includes changes in the values of inputs that he relied on since Pima Utility Company's application was filed in August of 2011, his use of forecasted yields on long-term U.S. Treasury instruments, his calculation of a market risk premium using a narrow range of economic data, and his assumptions regarding risk as it relates to company size.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My Name is William A. Rigsby. I am the Chief of Accounting and Rates for the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please describe your qualifications in the field of utilities regulation and your educational background.

A. I have been involved with utilities regulation in Arizona since 1994. During that period of time I have worked as a utilities rate analyst for both the Arizona Corporation Commission ("ACC" or "Commission") and for RUCO. I hold a Bachelor of Science degree in the field of finance from Arizona State University and a Master of Business Administration degree, with an emphasis in accounting, from the University of Phoenix. I have been awarded the professional designation, Certified Rate of Return Analyst ("CRRRA") by the Society of Utility and Regulatory Financial Analysts ("SURFA"). The CRRRA designation is awarded based upon experience and the successful completion of a written examination. Appendix I, which is attached to my direct testimony further describes my educational background and also includes a list of the rate cases and regulatory matters that I have been involved with.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present cost of capital recommendations that are based on my analysis of Pima Utility Company's ("Pima" or "Company") applications for a permanent rate increase for the Company's Water and Wastewater Divisions. Pima's rate applications were filed with the Commission on August 29, 2011. The rate applications were consolidated for ratemaking purposes pursuant to a Procedural Order issued on September 30, 2011 ("Consolidated Application"). The Company has chosen the operating period ending December 31, 2010 for the test year ("Test Year") in this proceeding. Pima has elected not to conduct a reconstruction cost new less depreciation study ("RCND") for the purpose of establishing a fair value rate base, and to use the Company's Water and Wastewater Division's original cost rate base as the fair value rate base for the purpose of establishing a fair value rate of return on its invested capital.

Q. Briefly describe Pima.

A. Pima is a Class B Arizona public service corporation that is organized as an S Corporation under Subtitle A, Chapter 1, Subchapter S of the Internal Revenue Code. The Company serves the Sun Lakes retirement community which is located approximately 25 miles southeast of Phoenix in Maricopa County. According to Pima's Consolidated Application, the Company's Water Division had 10,175 service connections and the

1 Company's Wastewater Division had 10,050 connections during the Test
2 Year. Pima's current water rates and charges were established in
3 Decision No. 58743, dated August 11, 1994 using a test year ending
4 December 31, 1992. The Company's present wastewater rates and
5 charges were established in Decision No. 62184, dated January 5, 2000
6 using a test year ended December 31, 1997.

7
8 **Q. Is this your first case involving Pima?**

9 A. No. I testified on behalf of RUCO during Pima's last Wastewater Division
10 rate case in 1999.

11
12 **Q. What areas will you address in your direct testimony?**

13 A. I will address the cost of capital issues associated with the case.

14
15 **Q. Will RUCO also offer direct testimony on the rate base, operating
16 income and rate design aspects of this proceeding?**

17 A. Yes. RUCO witness Robert B. Mease will provide direct testimony on rate
18 base, operating income and rate design for Pima's Water Division. RUCO
19 witness Timothy J. Coley will provide direct testimony on rate base,
20 operating income and rate design for the Company's Wastewater Division.

21
22 ...

1 **Q. Please explain your role in RUCO's analysis of Pima's Application.**

2 A. I reviewed Pima's Consolidated Application and performed a cost of
3 capital analysis to determine a fair rate of return on the Company's
4 invested capital. In addition to my recommended capital structure, my
5 direct testimony will present my recommended cost of common equity (the
6 Company has no preferred stock) and my recommended cost of long-term
7 debt. The recommendations contained in this testimony are based on
8 information obtained from Company responses to data requests, Pima's
9 Consolidated Application, and from market-based research that I
10 conducted during my analysis. For ratemaking purposes, the Company's
11 cost of capital will be determined on a consolidated basis (i.e. the
12 combined capital structure of Pima's Water and Wastewater Divisions).

13
14 **Q. Please identify the exhibits that you are sponsoring.**

15 A. I am sponsoring Exhibit 1, Attachments A through D and Schedules WAR-
16 1 through WAR-9.

17
18 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

19 **Q. Briefly summarize how your cost of capital testimony is organized.**

20 A. My cost of capital testimony is organized into seven sections. First, the
21 introduction I have just presented and second, a summary of my testimony
22 and recommendations that I am about to give. Third, I will present the
23 findings of my cost of equity capital analysis, which utilized both the

discounted cash flow ("DCF") method, and the capital asset pricing model ("CAPM"). These are the two methods that RUCO and ACC Staff have consistently used for calculating the cost of equity capital in rate case proceedings in the past, and are the methodologies that the ACC has given the most weight to in setting allowed rates of return for utilities that operate in the Arizona jurisdiction. In this third section I will also provide a brief overview of the current economic climate within which the Company is operating. Fourth, I will discuss my recommended cost of long-term debt for Pima. The fifth section of my direct testimony is devoted to a discussion of my recommended capital structure for the Company. Sixth I will discuss my recommended weighted average cost of capital. In the seventh and final section, I will comment on the Company's cost of capital testimony. Exhibit 1, Attachments A through D and Schedules WAR-1 through WAR-9 will provide support for my cost of capital analysis.

Q. Please summarize the recommendations and adjustments that you will address in your testimony.

A. Based on the results of my analysis, I am making the following recommendations:

Cost of Equity – I am recommending that the Commission adopt a 9.40 percent cost of equity. This 9.40 percent figure falls just below the high side of the range of results obtained in my cost of equity analysis, and is

1 110 basis points lower than the 10.50 percent cost of equity capital
2 proposed in the Company's Consolidated Application.

3
4 **Cost of Debt** – I am recommending, subject to updated information on a
5 pending financing agreement now before the ACC, that the Commission
6 adopt the Company-proposed 7.696 percent cost of Long-term debt
7 associated with the Company's Industrial Development Authority ("IDA")
8 Bonds issued in Maricopa County Arizona.

9
10 **Capital Structure** – I am recommending, subject to updated information
11 on a pending financing agreement now before the ACC, that the
12 Commission adopt the Company's actual test year capital structure
13 comprised of 77.47 percent equity and 22.53 percent long-term debt.

14
15 **Weighted Average Cost of Capital** – I am recommending, subject to
16 updated information on a pending financing agreement now before the
17 ACC, that the Commission adopt my recommended 9.01 percent weighted
18 average cost of capital ("WACC") which is the weighted cost of my
19 recommended costs of common equity and long-term debt, and is 46
20 basis points lower than the 9.47 percent WACC being proposed by Pima.

21
22 ...
23

1 **Q. Why do you believe that your recommended 9.01 percent WACC is**
2 **an appropriate rate of return for Pima to earn on its invested capital?**

3 A. The 9.01 percent WACC figure that I am recommending meets the criteria
4 established in the landmark Supreme Court cases of Bluefield Water
5 Works & Improvement Co. v. Public Service Commission of West Virginia
6 (262 U.S. 679, 1923) and Federal Power Commission v. Hope Natural
7 Gas Company (320 U.S. 391, 1944). Simply stated, these two cases
8 affirmed that a public utility that is efficiently and economically managed is
9 entitled to a return on investment that instills confidence in its financial
10 soundness, allows the utility to attract capital, and also allows the utility to
11 perform its duty to provide service to ratepayers. The rate of return
12 adopted for the utility should also be comparable to a return that investors
13 would expect to receive from investments with similar risk.

14
15 The Hope decision allows for the rate of return to cover both the operating
16 expenses and the "capital costs of the business" which includes interest
17 on debt and dividend payment to shareholders. This is predicated on the
18 belief that, in the long run, a company that cannot meet its debt obligations
19 and provide its shareholders with an adequate rate of return will not
20 continue to supply adequate public utility service to ratepayers.

21
22 ...
23

1 **Q. Do the Bluefield and Hope decisions indicate that a rate of return**
2 **sufficient to cover all operating and capital costs is guaranteed?**

3 A. No. Neither case *guarantees* a rate of return on utility investment. What
4 the Bluefield and Hope decisions *do allow*, is for a utility to be provided
5 with the *opportunity* to earn a reasonable rate of return on its investment.
6 That is to say that a utility, such as Pima, is provided with the opportunity
7 to earn an appropriate rate of return if the Company's management
8 exercises good judgment and manages its assets and resources in a
9 manner that is both prudent and economically efficient.

10
11 **COST OF EQUITY CAPITAL**

12 **Q. What is your final recommended cost of equity capital for Pima?**

13 A. I am recommending a cost of equity of 9.40 percent. My recommended
14 9.40 percent cost of equity figure falls just below the high side of the range
15 of results derived from my DCF and CAPM analyses, which utilized a
16 sample of publicly traded water providers and a sample of natural gas
17 local distribution companies ("LDCs"). The results of my DCF and CAPM
18 analyses are summarized on page 3 of my Schedule WAR-1.

Discounted Cash Flow (DCF) Method

Q. Please explain the DCF method that you used to estimate the Company's cost of equity capital.

A. The DCF method employs a stock valuation model known as the constant growth valuation model, that bears the name of Dr. Myron J. Gordon (i.e. the Gordon model), the professor of finance who was responsible for its development. Simply stated, the DCF model is based on the premise that the current price of a given share of common stock is determined by the present value of all of the future cash flows that will be generated by that share of common stock. The rate that is used to discount these cash flows back to their present value is often referred to as the investor's cost of capital (i.e. the cost at which an investor is willing to forego other investments in favor of the one that he or she has chosen).

Another way of looking at the investor's cost of capital is to consider it from the standpoint of a company that is offering its shares of stock to the investing public. In order to raise capital, through the sale of common stock, a company must provide a required rate of return on its stock that will attract investors to commit funds to that particular investment. In this respect, the terms "cost of capital" and "investor's required return" are one in the same. For common stock, this required return is a function of the dividend that is paid on the stock. The investor's required rate of return can be expressed as the percentage of the dividend that is paid on the

stock (dividend yield) plus an expected rate of future dividend growth.

This is illustrated in mathematical terms by the following formula:

$$k = \frac{D_1}{P_0} + g$$

where: k = the required return (cost of equity, equity capitalization rate),

$\frac{D_1}{P_0}$ = the dividend yield of a given share of stock calculated

by dividing the expected dividend by the current market

price of the given share of stock, and

g = the expected rate of future dividend growth

This formula is the basis for the standard growth valuation model that I used to determine the Company's cost of equity capital.

Q. In determining the rate of future dividend growth for the Company, what assumptions did you make?

A. There are two primary assumptions regarding dividend growth that must be made when using the DCF method. First, dividends will grow by a constant rate into perpetuity, and second, the dividend payout ratio will remain at a constant rate. Both of these assumptions are predicated on the traditional DCF model's basic underlying assumption that a company's earnings, dividends, book value and share growth all increase at the same constant rate of growth into infinity. Given these assumptions, if the

dividend payout ratio remains constant, so does the earnings retention ratio (the percentage of earnings that are retained by the company as opposed to being paid out in dividends). This being the case, a company's dividend growth can be measured by multiplying its retention ratio (1 - dividend payout ratio) by its book return on equity. This can be stated as $g = b \times r$.

Q. Would you please provide an example that will illustrate the relationship that earnings, the dividend payout ratio and book value have with dividend growth?

A. RUCO consultant Stephen Hill illustrated this relationship in a Citizens Utilities Company 1993 rate case by using a hypothetical utility.¹

Table I

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Growth</u>
Book Value	\$10.00	\$10.40	\$10.82	\$11.25	\$11.70	4.00%
Equity Return	10%	10%	10%	10%	10%	N/A
Earnings/Sh.	\$1.00	\$1.04	\$1.082	\$1.125	\$1.170	4.00%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	\$0.60	\$0.624	\$0.649	\$0.675	\$0.702	4.00%

Table I of Mr. Hill's illustration presents data for a five-year period on his hypothetical utility. In Year 1, the utility had a common equity or book value of \$10.00 per share, an investor-expected equity return of ten

¹ Citizens Utilities Company, Arizona Gas Division, Docket No. E-1032-93-111, Prepared Testimony, dated December 10, 1993, p. 25.

1 percent, and a dividend payout ratio of sixty percent. This results in
2 earnings per share of \$1.00 (\$10.00 book value x 10 percent equity return)
3 and a dividend of \$0.60 (\$1.00 earnings/sh. x 0.60 payout ratio) during
4 Year 1. Because forty percent (1 - 0.60 payout ratio) of the utility's
5 earnings are retained as opposed to being paid out to investors, book
6 value increases to \$10.40 in Year 2 of Mr. Hill's illustration. Table I
7 presents the results of this continuing scenario over the remaining five-
8 year period.

9
10 The results displayed in Table I demonstrate that under "steady-state" (i.e.
11 constant) conditions, book value, earnings and dividends all grow at the
12 same constant rate. The table further illustrates that the dividend growth
13 rate, as discussed earlier, is a function of (1) the internally generated
14 funds or earnings that are retained by a company to become new equity,
15 and (2) the return that an investor earns on that new equity. The DCF
16 dividend growth rate, expressed as $g = b \times r$, is also referred to as the
17 internal or sustainable growth rate.

18
19 **Q. If earnings and dividends both grow at the same rate as book value,**
20 **shouldn't that rate be the sole factor in determining the DCF growth**
21 **rate?**

22 **A.** No. Possible changes in the expected rate of return on either common
23 equity or the dividend payout ratio make earnings and dividend growth by

themselves unreliable. This can be seen in the continuation of Mr. Hill's illustration on a hypothetical utility.

Table II

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Growth</u>
Book Value	\$10.00	\$10.40	\$10.82	\$11.47	\$12.158	5.00%
Equity Return	10%	10%	15%	15%	15%	10.67%
Earnings/Sh	\$1.00	\$1.04	\$1.623	\$1.720	\$1.824	16.20%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	\$0.60	\$0.624	\$0.974	\$1.032	\$1.094	16.20%

In the example displayed in Table II, a sustainable growth rate of four percent² exists in Year 1 and Year 2 (as in the prior example). In Year 3, Year 4 and Year 5, however, the sustainable growth rate increases to six percent.³ If the hypothetical utility in Mr. Hill's illustration were expected to earn a fifteen-percent return on common equity on a continuing basis, then a six percent long-term rate of growth would be reasonable. However, the compound growth rate for earnings and dividends, displayed in the last column, is 16.20 percent. If this rate was to be used in the DCF model, the utility's return on common equity would be expected to increase by fifty percent every five years, $[(15 \text{ percent} \div 10 \text{ percent}) - 1]$. This is clearly an unrealistic expectation.

² $[(\text{Year 2 Earnings/Sh} - \text{Year 1 Earnings/Sh}) \div \text{Year 1 Earnings/Sh}] = [(\$1.04 - \$1.00) \div \$1.00] = [\$0.04 \div \$1.00] = \underline{4.00\%}$

³ $[(1 - \text{Payout Ratio}) \times \text{Rate of Return}] = [(1 - 0.60) \times 15.00\%] = 0.40 \times 15.00\% = \underline{6.00\%}$

1 Although it is not illustrated in Mr. Hill's hypothetical example, a change in
2 only the dividend payout ratio will eventually result in a utility paying out
3 more in dividends than it earns. While it is not uncommon for a utility in
4 the real world to have a dividend payout ratio that exceeds one hundred
5 percent on occasion, it would be unrealistic to expect the practice to
6 continue over a sustained long-term period of time.

7
8 **Q. Other than the retention of internally generated funds, as illustrated**
9 **in Mr. Hill's hypothetical example, are there any other sources of new**
10 **equity capital that can influence an investor's growth expectations**
11 **for a given company?**

12 **A.** Yes, a company can raise new equity capital externally. The best
13 example of external funding would be the sale of new shares of common
14 stock. This would create additional equity for the issuer and is often the
15 case with utilities that are either in the process of acquiring smaller
16 systems or providing service to rapidly growing areas.

17
18 **Q. How does external equity financing influence the growth**
19 **expectations held by investors?**

20 **A.** Rational investors will put their available funds into investments that will
21 either meet or exceed their given cost of capital (i.e. the return earned on
22 their investment). In the case of a utility, the book value of a company's
23 stock usually mirrors the equity portion of its rate base (the utility's earning

1 base). Because regulators allow utilities the opportunity to earn a
2 reasonable rate of return on rate base, an investor would take into
3 consideration the effect that a change in book value would have on the
4 rate of return that he or she would expect the utility to earn. If an investor
5 believes that a utility's book value (i.e. the utility's earning base) will
6 increase, then he or she would expect the return on the utility's common
7 stock to increase. If this positive trend in book value continues over an
8 extended period of time, an investor would have a reasonable expectation
9 for sustained long-term growth.

10
11 **Q. Please provide an example of how external financing affects a**
12 **utility's book value of equity.**

13 **A.** As I explained earlier, one way that a utility can increase its equity is by
14 selling new shares of common stock on the open market. If these new
15 shares are purchased at prices that are higher than those shares sold
16 previously, the utility's book value per share will increase in value. This
17 would increase both the earnings base of the utility and the earnings
18 expectations of investors. However, if new shares sold at a price below
19 the pre-sale book value per share, the after-sale book value per share
20 declines in value. If this downward trend continues over time, investors
21 might view this as a decline in the utility's sustainable growth rate and will
22 have lower expectations regarding growth. Using this same logic, if a new
23 stock issue sells at a price per share that is the same as the pre-sale book

value per share, there would be no impact on either the utility's earnings base or investor expectations.

Q. Please explain how the external component of the DCF growth rate is determined.

A. In his book, *The Cost of Capital to a Public Utility*,⁴ Dr. Gordon (the individual responsible for the development of the DCF or constant growth model) identified a growth rate that includes both expected internal and external financing components. The mathematical expression for Dr. Gordon's growth rate is as follows:

$$g = (br) + (sv)$$

where: g = DCF expected growth rate,
 b = the earnings retention ratio,
 r = the return on common equity,
 s = the fraction of new common stock sold that accrues to a current shareholder, and
 v = funds raised from the sale of stock as a fraction of existing equity.

$$\text{and } v = 1 - [(BV) \div (MP)]$$

where: BV = book value per share of common stock, and
 MP = the market price per share of common stock.

⁴ Gordon, M.J., *The Cost of Capital to a Public Utility*, East Lansing, MI: Michigan State University, 1974, pp. 30-33.

1 **Q. Did you include the effect of external equity financing on long-term**
2 **growth rate expectations in your analysis of expected dividend**
3 **growth for the DCF model?**

4 A. Yes. The external growth rate estimate (sv) is displayed on Page 1 of
5 Schedule WAR-4, where it is added to the internal growth rate estimate
6 (br) to arrive at a final sustainable growth rate estimate.

7
8 **Q. Please explain why your calculation of external growth on page 2 of**
9 **Schedule WAR-4, is the current market-to-book ratio averaged with**
10 **1.0 in the equation $[(M \div B) + 1] \div 2$.**

11 A. The market price of a utility's common stock will tend to move toward book
12 value, or a market-to-book ratio of 1.0, if regulators allow a rate of return
13 that is equal to the cost of capital (one of the desired effects of regulation).
14 As a result of this situation, I used $[(M \div B) + 1] \div 2$ as opposed to the
15 current market-to-book ratio by itself to represent investor's expectations
16 that, in the future, a given utility will achieve a market-to-book ratio of 1.0.

17
18 **Q. Has the Commission ever adopted a cost of capital estimate that**
19 **included this assumption?**

20 A. Yes. In a prior Southwest Gas Corporation rate case⁵, the Commission
21 adopted the recommendations of ACC Staff's cost of capital witness,
22 Stephen Hill, who I noted earlier in my testimony. In that case, Mr. Hill

⁵ Decision No. 68487, Dated February 23, 2006 (Docket No. G-01551A-04-0876)

1 used the same methods that I have used in arriving at the inputs for the
2 DCF model. His final recommendation for Southwest Gas Corporation
3 was largely based on the results of his DCF analysis, which incorporated
4 the same valid market-to-book ratio assumption that I have used
5 consistently in the DCF model as a cost of capital witness for RUCO.

6
7 **Q. Can you cite a more recent case in which the Commission adopted a**
8 **cost of capital estimate that included this assumption?**

9 **A.** Yes. The Commission adopted a RUCO recommended cost of common
10 equity which relied on the same assumption in a 2009 Global Water rate
11 case proceeding.⁶ Decision No. 71878, dated September 14, 2010 stated
12 the following:

13 "We find that the evidence presented by RUCO as a basis for its
14 cost of equity recommendation constitutes substantial evidence in
15 support of its cost of equity recommendation. We further find that
16 the evidence presented by the Company as a basis for its cost of
17 equity recommendation contrary to RUCO's assertion, constitutes
18 evidence that is no less substantial in support of its
19 recommendation and of Staffs acceptance thereof. The
20 methodologies on which each of the parties relied in making their
21 cost of equity recommendations are clearly set forth in the hearing
22 exhibits. Based on a consideration of all the evidence presented
23 in this proceeding, we find a cost of common equity of 9.0 percent
24 to be reasonable in this case. This level of return on equity
25 reasonably and fairly balances the needs of Applicants and their
26 ratepayers, is reflective of current market conditions, and results in
27 the setting of just and reasonable rates."

28
29 ...

30

⁶ Docket Number W-02445A-09-0077

1 **Q. How did you develop your dividend growth rate estimate?**

2 A. I analyzed data on two separate proxy groups. A water company proxy
3 group comprised of five publicly traded water companies and a natural gas
4 proxy group consisting of nine natural gas local distribution companies
5 ("LDCs") that have similar operating characteristics to water providers.
6

7 **Q. Why did you use a proxy group methodology as opposed to a direct**
8 **analysis of the Company?**

9 A. One of the problems in performing this type of analysis is that the utility
10 applying for a rate increase is not always a publicly traded company as in
11 this case where shares of are closely held and not publicly-traded on a
12 stock exchange. Because of this situation, I used the aforementioned
13 proxy that includes four publicly-traded water companies and nine LDCs.
14

15 **Q. Are there any other advantages to the use of a proxy?**

16 A. Yes. As I noted earlier, the U.S. Supreme Court ruled in the Hope
17 decision that a utility is entitled to earn a rate of return that is
18 commensurate with the returns on investments of other firms with
19 comparable risk. The proxy technique that I have used derives that rate of
20 return. One other advantage to using a sample of companies is that it
21 reduces the possible impact that any undetected biases, anomalies, or
22 measurement errors may have on the DCF growth estimate.
23

1 **Q. What criteria did you use in selecting the companies that make up**
2 **your water company proxy for the Company?**

3 A. The five water companies used in the proxy are publicly traded on the
4 both the New York Stock Exchange ("NYSE") and the NASDAQ.⁷ All of
5 the water companies are followed by The Value Line Investment Survey
6 ("Value Line") and are the same companies that comprise Value Line's
7 large capitalization Water Utility Industry segment of the U.S. economy
8 (Attachment A contains Value Line's January 20, 2012 update of the water
9 utility industry and evaluations of the water companies used in my proxy).

10
11 **Q. Are these the same water utilities that you have used in prior rate**
12 **case proceedings?**

13 A. I have used four of the five water utilities in prior rate case proceedings.
14 Value Line recently included Middlesex Water Company (stock ticker
15 symbol MSEX, which is traded on the NASDAQ) in its large capitalization
16 edition that provides long range projections on earnings and other
17 financial metrics. Prior to January of 2012, Middlesex Water Company
18 was included in Value Line's Small and Mid-Cap Edition.

19
20 ...
21

⁷ "NASDAQ" originally stood for "National Association of Securities Dealers Automated Quotations". Today it is the second-largest stock exchange in the world, after the New York Stock Exchange ("NYSE").

1 **Q. Please describe Middlesex Water Company.**

2 A. According to Value Line, Middlesex Water Company owns and operates
3 regulated water systems in New Jersey, Delaware and Pennsylvania and
4 operates municipal and privately owned systems on a contract basis in
5 New Jersey and Delaware. During the 2010 operating period, MSEX's
6 Middlesex System provided water service to 60,000 retail customers,
7 primarily in Middlesex County New Jersey, which accounted for 64.00
8 percent of total revenues.

9
10 **Q. Please describe the other water utilities that comprise your water**
11 **company proxy group.**

12 A. My water company proxy group also includes American States Water
13 Company (stock ticker symbol "AWR"), California Water Service Group
14 ("CWT"), SJW Corporation ("SJW"), a San Jose, California-based water
15 provider which, prior to April of 2011, was also included in Value Line's
16 Small and Mid-Cap Edition, and Aqua America, Inc. ("WTR"). Each of
17 these water companies, including MSEX, all face the same types of risk
18 that Pima faces. For the sake of brevity, I will refer to Middlesex each of
19 the other companies in my samples by their appropriate stock ticker
20 symbols henceforth.

21
22 ...
23

1 **Q. Briefly describe the areas served by the companies in your water**
2 **company sample proxy.**

3 A. AWR serves communities located in Los Angeles, Orange and San
4 Bernardino counties in California. CWT provides service to customers in
5 seventy-five communities in California, New Mexico and Washington.
6 CWT's principal service areas are located in the San Francisco Bay area,
7 the Sacramento, Salinas and San Joaquin Valleys and parts of Los
8 Angeles. As described earlier in my testimony, MSEX serves customers
9 in New Jersey, Delaware and Pennsylvania. SJW serves approximately
10 226,000 customers in the San Jose area and approximately 8,700
11 customers in a region located between Austin and San Antonio, Texas.
12 WTR is a holding company for a large number of water and wastewater
13 utilities operating in nine different states including Pennsylvania, Ohio,
14 New Jersey, Illinois, Maine, North Carolina, Texas, Florida and Kentucky.

15
16 **Q. What criteria did you use in selecting the natural gas LDCs included**
17 **in your proxy for the Company?**

18 A. As are the water companies that I just described, each of the natural gas
19 LDCs used in the proxy are publicly traded on a major stock exchange (all
20 nine trade on the NYSE) and are followed by Value Line. Each of the nine
21 LDCs in my sample are tracked in Value Line's natural gas Utility industry
22 segment. All of the companies in the proxy are engaged in the provision
23 of regulated natural gas distribution services. Attachment B of my

1 testimony contains Value Line's most recent evaluation of the natural gas
2 proxy group that I used for my cost of common equity analysis.

3
4 **Q. What companies are included your natural gas proxy?**

5 A. The nine natural gas LDCs included in my proxy (and their NYSE ticker
6 symbols) are AGL Resources, Inc. ("AGL"), Atmos Energy Corp. ("ATO"),
7 Laclede Group, Inc. ("LG"), New Jersey Resources Corporation ("NJR"),
8 Northwest Natural Gas Co. ("NWN"), Piedmont Natural Gas Company
9 ("PNY"), South Jersey Industries, Inc. ("SJI") Southwest Gas Corporation
10 ("SWX"), which is the dominant natural gas provider in Arizona, and WGL
11 Holdings, Inc. ("WGL").

12
13 **Q. Are these the same LDCs that you have used in prior rate case**
14 **proceedings?**

15 A. Yes, I have used these same LDCs in prior cases including the most
16 recent UNS Gas, Inc. proceeding.⁸

17
18 **Q. Briefly describe the regions of the U.S. served by the nine natural**
19 **gas LDCs that make up your sample proxy.**

20 A. The nine LDCs listed above provide natural gas service to customers in
21 the Middle Atlantic region (i.e. NJR which serves portions of northern New
22 Jersey, SJI which serves southern New Jersey and WGL which serves the

⁸ Docket No. G-04204A-10-0158

1 Washington D.C. metro area), the Southeast and South Central portions
2 of the U.S. (i.e. AGL which serves Virginia, southern Tennessee and the
3 Atlanta, Georgia area and PNY which serves customers in North Carolina,
4 South Carolina and Tennessee), the South, deep South and Midwest (i.e.
5 ATO which serves customers in Kentucky, Mississippi, Louisiana, Texas,
6 Colorado and Kansas, LG which serves the St. Louis area), and the
7 Pacific Northwest (i.e. NWN which serves Washington state and Oregon).
8 Portions of Arizona, Nevada and California are served by SWX.

9
10 **Q. Are these the same water and natural gas companies that Pima used**
11 **in its application?**

12 A. Pima's cost of equity witness, Thomas J. Bourassa, used all of the same
13 water companies included in my proxy but did not rely on a sample of
14 LDCs as I did. Mr. Bourassa also used one other water company in his
15 cost of capital analysis which I excluded from mine.

16
17 **Q. Which water company did you exclude from your sample?**

18 A. I excluded Connecticut Water Service, Inc.

19
20 **Q. Why did you exclude that particular water company?**

21 A. Connecticut Water Service, Inc. is followed in Value Line's Small and Mid-
22 Cap edition which does not provide the same type of forward-looking
23 information (i.e. long-term estimates on return on common equity and

1 share growth) that it provides on the five water companies that I used in
2 my proxy.

3
4 **Q. Please explain your DCF growth rate calculations for the sample**
5 **companies used in your proxy.**

6 A. Schedule WAR-5 provides retention ratios, returns on book equity, internal
7 growth rates, book values per share, numbers of shares outstanding, and
8 the compounded share growth for each of the utilities included in the
9 sample for the historical observation period 2006 to 2010 for water
10 companies and 2007 to 2011 for LDCs. Schedule WAR-5 also includes
11 Value Line's projected 2011, 2012 and 2014-16 values for the retention
12 ratio, equity return, book value per share growth rate, and number of
13 shares outstanding for the water utilities in my sample. Schedule WAR-5
14 also includes Value Line's projected 2012, 2013 and 2015-17 values for
15 and the LDCs included in my analysis.

16
17 **Q. Please describe how you used the information displayed in Schedule**
18 **WAR-5 to estimate each comparable utility's dividend growth rate.**

19 A. In explaining my analysis, I will use AWR as an example. The first
20 dividend growth component that I evaluated was the internal growth rate.
21 I used the "b x r" formula (described earlier on pages 11 and 12 of my
22 direct testimony) to multiply AWR's earned return on common equity by its
23 earnings retention ratio for each year in the 2006 to 2010 observation

1 period to derive the utility's annual internal growth rates. I used the mean
2 average of this five-year period as a benchmark against which I compared
3 the projected growth rate trends provided by Value Line. Because an
4 investor is more likely to be influenced by recent growth trends, as
5 opposed to historical averages, the five-year mean noted earlier was used
6 only as a benchmark figure. As shown on Schedule WAR-5, Page 1,
7 AWR's average internal growth rate of 3.67% over the 2006 to 2010 time
8 frame reflects an up and down pattern of growth that ranged from a low of
9 2.56% in 2006 to a high of 5.85% during 2010. Value Line is predicting a
10 pattern of increasing growth for the future and expects internal growth will
11 fall to 5.37% in 2011 before climbing to 5.66% by the end of the 2014-16
12 time frame. After weighing Value Line's projections on earnings and
13 dividend growth, I believe that a 5.70% rate of internal sustainable growth
14 is reasonable for AWR (Schedule WAR-4, Page 1 of 2).

15
16 **Q. Please continue with the external growth rate component portion of**
17 **your analysis.**

18 **A.** Schedule WAR-5 demonstrates that the number of shares outstanding for
19 AWR increased from 17.05 million to 18.63 million from 2006 to 2010.
20 Value Line is predicting that this level will increase from 18.75 million in
21 2011 to 19.50 million by the end of 2016. Based on this data, I believe
22 that a 1.00 percent growth in shares is not unreasonable for AWR (Page 2
23 of Schedule WAR-4). My final dividend growth rate estimate for AWR is

6.04 percent (5.70 percent internal growth + 0.34 percent external growth)
and is shown on Page 1 of Schedule WAR-4.

Q. What is your average DCF dividend growth rate estimate for your sample of water utilities?

A. My average DCF dividend growth rate estimate for my water company sample is 5.19 percent as displayed on page 1 of Schedule WAR-4.

Q. Did you use the same approach to determine an average dividend growth rate for your proxy of natural gas LDCs?

A. Yes.

Q. What is your average DCF dividend growth rate estimate for the sample natural gas utilities?

A. My average DCF dividend growth rate estimate is 5.81 percent, which is also displayed on page 1 of Schedule WAR-4.

Q. How does your average dividend growth rate estimates on water companies compare to the growth rate data published by Value Line and other analysts?

A. Schedule WAR-6 compares my growth estimates with the five-year projections of analysts at both Zacks Investment Research, Inc. ("Zacks") (Attachment C) and Value Line. In the case of the water companies, my

1 5.19 percent growth estimate falls between Zacks' average long-term EPS
2 projection of 10.10 percent for the water companies in my sample and
3 Value Line's growth projection of 4.53 percent (which is an average of
4 EPS, DPS and BVPS). My 5.19 percent estimate is 29 basis points higher
5 than the 4.90 percent average of Value Line's historical growth results and
6 7 basis points higher than the 5.12 percent average of the growth data
7 published by Value Line and Zacks. My 5.19 percent growth estimate is
8 also 437 basis points higher than Value Line's 0.82 percent 5-year
9 compound historical average of EPS, DPS and BVPS. The estimates of
10 analysts at Value Line indicate that investors are expecting somewhat
11 higher performance from the water utility industry in the future given Value
12 Line's projected 8.00 percent to 9.00 percent return on book common
13 equity for the water utility industry over the 2011 to 2016 period
14 (Attachment A). On balance, I would say my 5.87 percent estimate is a
15 good representation of the growth projections that are available to the
16 investing public.

17
18 **Q. How do your average growth rate estimates on natural gas LDCs**
19 **compare to the growth rate data published by Value Line and other**
20 **analysts?**

21 **A.** As can be seen on Schedule WAR-6, my 5.81 percent growth estimate for
22 the natural gas LDCs is 114 to 127 basis points higher than the average
23 4.67 percent average of long-term EPS consensus projection published by

1 Zacks, and the 4.54 percent Value Line projected estimate (which is an
2 average of EPS, DPS and BVPS). The 5.81 percent estimate that I have
3 calculated is 50 basis points higher than the 5.31 percent average of the
4 5-year historic EPS, DPS and BVPS means of Value Line and is also 92
5 basis points higher than the combined 4.89 percent Value Line and Zacks
6 averages displayed in Schedule WAR-6. In fact, my 5.81 percent growth
7 estimate exceeds Value Line's 4.49 percent 5-year compound historical
8 average of EPS, DPS and BVPS by 132 basis points. In the case of the
9 LDCs I would say that my 5.81 percent estimate is more optimistic than
10 the growth projections for natural gas LDCs being presented by securities
11 analysts at this point in time.

12
13 **Q. How did you calculate the dividend yields displayed in Schedule**
14 **WAR-3?**

15 **A.** For both the water companies and the natural gas LDCs I used the
16 estimated annual dividends, for the next twelve-month period, that
17 appeared in Value Line's January 20, 2012 Ratings and Reports water
18 utility industry update and Value Line's March 9, 2012 Ratings and
19 Reports natural gas utility update. I then divided those figures by the
20 eight-week average daily adjusted closing price per share of the
21 appropriate utility's common stock. The eight-week observation period ran
22 from January 17, 2012 to March 9, 2012. The average dividend yields

1 were 3.25 percent and 3.62 percent for the water companies and natural
2 gas LDCs respectively.

3
4 **Q. Based on the results of your DCF analysis, what is your cost of**
5 **equity capital estimate for the water and natural gas utilities included**
6 **in your sample?**

7 A. As shown on page 3 of Schedule WAR-2, the cost of equity capital derived
8 from my DCF analysis is 8.44 percent for the water utilities and 9.44
9 percent for the natural gas LDCs.

10
11 **Capital Asset Pricing Model (CAPM) Method**

12 **Q. Please explain the theory behind CAPM and why you decided to use**
13 **it as an equity capital valuation method in this proceeding.**

14 A. CAPM is a mathematical tool that was developed during the early 1960's
15 by William F. Sharpe⁹, the Timken Professor Emeritus of Finance at
16 Stanford University, who shared the 1990 Nobel Prize in Economics for
17 research that eventually resulted in the CAPM model. CAPM is used to
18 analyze the relationships between rates of return on various assets and
19 risk as measured by beta.¹⁰ In this regard, CAPM can help an investor to

⁹ William F. Sharpe, "A Simplified Model of Portfolio Analysis," Management Science, Vol. 9, No. 2 (January 1963), pp. 277-93.

¹⁰ Beta is defined as an index of volatility, or risk, in the return of an asset relative to the return of a market portfolio of assets. It is a measure of systematic or non-diversifiable risk. The returns on a stock with a beta of 1.0 will mirror the returns of the overall stock market. The returns on stocks with betas greater than 1.0 are more volatile or riskier than those of the overall stock

1 determine how much risk is associated with a given investment so that he
2 or she can decide if that investment meets their individual preferences.
3 Finance theory has always held that as the risk associated with a given
4 investment increases, so should the expected rate of return on that
5 investment and vice versa. According to CAPM theory, risk can be
6 classified into two specific forms: nonsystematic or diversifiable risk, and
7 systematic or non-diversifiable risk. While nonsystematic risk can be
8 virtually eliminated through diversification (i.e. by including stocks of
9 various companies in various industries in a portfolio of securities),
10 systematic risk, on the other hand, cannot be eliminated by diversification.
11 Thus, systematic risk is the only risk of importance to investors. Simply
12 stated, the underlying theory behind CAPM is that the expected return on
13 a given investment is the sum of a risk-free rate of return plus a market
14 risk premium that is proportional to the systematic (non-diversifiable risk)
15 associated with that investment. In mathematical terms, the formula is as
16 follows:

$$k = r_f + [\beta (r_m - r_f)]$$

17
18 where: k = the expected return of a given security,
19 r_f = risk-free rate of return,
20 β = beta coefficient, a statistical measurement of a
21 security's systematic risk,
22 r_m = average market return (e.g. S&P 500), and

market; and if a stock's beta is less than 1.0, its returns are less volatile or riskier than the overall stock market.

1 $r_m - r_f =$ market risk premium.

2
3 **Q. What types of financial instruments are generally used as a proxy for**
4 **the risk-free rate of return in the CAPM model?**

5 A. Generally speaking, the yields of U.S. Treasury instruments are used by
6 analysts as a proxy for the risk-free rate of return component.

7
8 **Q. Please explain why U.S. Treasury instruments are regarded as a**
9 **suitable proxy for the risk-free rate of return?**

10 A. As citizens and investors, we would like to believe that U.S. Treasury
11 securities (which are backed by the full faith and credit of the United
12 States Government) pose no threat of default no matter what their maturity
13 dates are. However, a comparison of various Treasury instruments
14 (Attachment D) will reveal that those with longer maturity dates do have
15 slightly higher yields. Treasury yields are comprised of two separate
16 components,¹¹ a real rate of interest (believed to be approximately 2.00
17 percent) and an inflationary expectation. When the real rate of interest is
18 subtracted from the total treasury yield, all that remains is the inflationary
19 expectation. Because increased inflation represents a potential capital
20 loss, or risk, to investors, a higher inflationary expectation by itself
21 represents a degree of risk to an investor. Another way of looking at this

¹¹ As a general rule of thumb, there are three components that make up a given interest rate or rate of return on a security: the real rate of interest, an inflationary expectation, and a risk premium. The approximate risk premium of a given security can be determined by simply subtracting a 91-day T-Bill rate from the yield on the security.

1 is from an opportunity cost standpoint. When an investor locks up funds in
2 long-term T-Bonds, compensation must be provided for future investment
3 opportunities foregone. This is often described as maturity or interest rate
4 risk and it can affect an investor adversely if market rates increase before
5 the instrument matures (a rise in interest rates would decrease the value
6 of the debt instrument). As discussed earlier in the DCF portion of my
7 testimony, this compensation translates into higher rates of returns to the
8 investor.

9
10 **Q. What security did you use for a risk-free rate of return in your CAPM**
11 **analysis?**

12 A. I used an eight-week average of the yield on a 5-year U.S. Treasury
13 instrument. The yields were published in Value Line's Selection and
14 Opinion publication dated January 20, 2012 through March 9, 2012
15 (Attachment D). This resulted in a risk-free (r_f) rate of return of 0.81
16 percent.

17
18 **Q. Why did you use the yield on a 5-year year U.S. Treasury instrument**
19 **as opposed to a short-term T-Bill?**

20 A. While a shorter term instrument, such as a 91-day T-Bill, presents the
21 lowest possible total risk to an investor, a good argument can be made
22 that the yield on an instrument that matches the investment period of the
23 asset being analyzed in the CAPM model should be used as the risk-free

1 rate of return. Since utilities in Arizona generally file for rates every three
2 to five years, the yield on a 5-year U.S. Treasury Instrument closely
3 matches the investment period or, in the case of regulated utilities, the
4 period that new rates will be in effect.

5
6 **Q. How did you calculate the market risk premium used in your CAPM**
7 **analysis?**

8 A. I used both a geometric and an arithmetic mean of the historical total
9 returns on the S&P 500 index from 1926 to 2010 as the proxy for the
10 market rate of return (r_m). For the risk-free portion of the risk premium
11 component (r_f), I used the geometric mean of the total returns of
12 intermediate-term government bonds for the same eighty-four year period.
13 The market risk premium ($r_m - r_f$) that results by using the geometric mean
14 of these inputs is 4.50 percent ($9.90\% - 5.40\% = \underline{4.50\%}$). The market risk
15 premium that results by using the arithmetic mean calculation is 6.40
16 percent ($11.90\% - 5.50\% = \underline{6.40\%}$).

17
18 **Q. How did you select the beta coefficients that were used in your**
19 **CAPM analysis?**

20 A. The beta coefficients (β), for the individual utilities used in both my
21 proxies, were calculated by Value Line and were current as of January 20,
22 2012 for the water companies and March 9, 2012 for the natural gas
23 LDCs. Value Line calculates its betas by using a regression analysis

1 between weekly percentage changes in the market price of the security
2 being analyzed and weekly percentage changes in the NYSE Composite
3 Index over a five-year period. The betas are then adjusted by Value Line
4 for their long-term tendency to converge toward 1.00. The beta
5 coefficients for the service providers included in my water company
6 sample ranged from 0.65 to 0.85 with an average beta of 0.71. The beta
7 coefficients for the LDCs included in my natural gas sample ranged from
8 0.60 to 0.75 with an average beta of 0.67.

9
10 **Q. What are the results of your CAPM analysis?**

11 A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation
12 using a geometric mean to calculate the risk premium results in an
13 average expected return of 4.00 percent for the water companies and 3.83
14 percent for the natural gas LDCs. My calculation using an arithmetic
15 mean results in an average expected return of 5.35 percent for the water
16 companies and 5.11 percent for the natural gas LDCs.

17
18 **Q. What would be the expected return if a longer term 30-year U.S.**
19 **Treasury bond were used as the risk free asset in the CAPM model?**

20 A. If a 3.07 percent eight-week average of 30-year U.S. Treasury bond yields
21 were used in my CAPM model it would produce expected returns of 6.19
22 percent using a geometric mean, and 7.33 percent using an arithmetic
23 mean for my water company sample with its higher average beta of 0.71.

As I will discuss later in my testimony, the yields of long-term U.S. Treasury instruments are currently falling as a result of recent actions being undertaken by the U.S. Federal Reserve.

Q. Please summarize the results derived under each of the methodologies presented in your testimony.

A. The following is a summary of the cost of equity capital derived under each methodology used:

<u>METHOD</u>	<u>RESULTS</u>
DCF (Water Sample)	8.44%
DCF (Natural Gas Sample)	9.44%
CAPM (Water Sample)	4.00% – 5.35%
CAPM (Natural Gas)	3.83% – 5.11%

My final recommended cost of common equity figure is 9.40 percent which is just below the high end of my range of estimates.

Q. How does your recommended cost of equity capital compare with the cost of equity capital proposed by the Company?

A. The 10.50 percent cost of equity capital reflected in the Company's Application is 110 basis points higher than the 9.40 percent cost of equity capital that I am recommending.

Q How did you arrive at your final recommended 9.40 percent cost of common equity?

A. My recommended 9.40 percent cost of common equity falls just below the high side of the range of estimates obtained from my DCF and CAPM analyses. As I will discuss in more detail in the next section of my testimony, my final estimate takes into consideration current interest rates (as the cost of equity moves in the same direction as interest rates) and the current state of the national economy. My final estimate also takes into consideration the U.S. Federal Reserve's recent decision to keep interest rates at their current levels until at least the later part of 2014. I also took into consideration information on Arizona's economy and current rate of unemployment in making my final cost of equity estimate.

Current Economic Environment

Q. Please explain why it is necessary to consider the current economic environment when performing a cost of equity capital analysis for a regulated utility.

A. Consideration of the economic environment is necessary because trends in interest rates, present and projected levels of inflation, and the overall state of the U.S. economy determine the rates of return that investors earn on their invested funds. Each of these factors represent potential risks that must be weighed when estimating the cost of equity capital for a

1 regulated utility and are, most often, the same factors considered by
2 individuals who are also investing in non-regulated entities.
3

4 **Q. Please describe your analysis of the current economic environment.**

5 A. My analysis begins with a review of the economic events that have
6 occurred between 1990 and the present in order to provide a background
7 on how we got to where we are now. It also describes how the Board of
8 Governors of the Federal Reserve System ("Federal Reserve" or "Fed")
9 and its Federal Open Market Committee ("FOMC") used its interest rate-
10 setting authority to stimulate the economy by cutting interest rates during
11 recessionary periods and by raising interest rates to control inflation during
12 times of robust economic growth. Schedule WAR-8 displays various
13 economic indicators and other data that I will refer to during this portion of
14 my testimony.
15

16 In 1991, as measured by the most recently revised annual change in
17 gross domestic product ("GDP"), the U.S. economy experienced a rate of
18 growth of negative 0.20 percent. This decline in GDP marked the
19 beginning of a mild recession that ended sometime before the end of the
20 first half of 1992. Reacting to this situation, the Federal Reserve, then
21 chaired by noted economist Alan Greenspan, lowered its benchmark

1 federal funds rate¹² in an effort to further loosen monetary constraints - an
2 action that resulted in lower interest rates.

3
4 During this same period, the nation's major money center banks followed
5 the Federal Reserve's lead and began lowering their interest rates as well.
6 By the end of the fourth quarter of 1993, the prime rate (the rate charged
7 by banks to their best customers) had dropped to 6.00 percent from a
8 1990 level of 10.01 percent. In addition, the Federal Reserve's discount
9 rate on loans to its member banks had fallen to 3.00 percent and short-
10 term interest rates had declined to levels that had not been seen since
11 1972.

12
13 Although GDP increased in 1992 and 1993, the Federal Reserve took
14 steps to increase interest rates beginning in February of 1994, in order to
15 keep inflation under control. By the end of 1995, the Federal discount rate
16 had risen to 5.21 percent. Once again, the banking community followed
17 the Federal Reserve's moves. The Fed's strategy, during this period, was
18 to engineer a "soft landing." That is to say that the Federal Reserve
19 wanted to foster a situation in which economic growth would be stabilized
20 without incurring either a prolonged recession or runaway inflation.

21

¹² This is the interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is the most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the prime rate and the discount rate, which are periodically changed by banks and by the Federal Reserve Board, respectively.

1 **Q. Did the Federal Reserve achieve its goals during this period?**

2 A. Yes. The Fed's strategy of decreasing interest rates to stimulate the
3 economy worked. The annual change in GDP began an upward trend in
4 1992. A change of 4.50 percent and 4.20 percent were recorded at the
5 end of 1997 and 1998 respectively. Based on daily reports that were
6 presented in the mainstream print and broadcast media during most of
7 1999, there appeared to be little doubt among both economists and the
8 public at large that the U.S. was experiencing a period of robust economic
9 growth highlighted by low rates of unemployment and inflation. Investors,
10 who believed that technology stocks and Internet company start-ups (with
11 little or no history of earnings) had high growth potential, purchased these
12 types of issues with enthusiasm. These types of investors, who exhibited
13 what former Chairman Greenspan described as "irrational exuberance,"
14 pushed stock prices and market indexes to all time highs from 1997 to
15 2000. Over the next ten years, the FOMC continued to stimulate the
16 economy and keep inflation in check by raising and lowering the federal
17 funds rate.

18
19 **Q. How did the U.S. economy fare between 2001 and 2007?**

20 A. The U.S. economy entered into a recession near the end of the first
21 quarter of 2001. The bullish trend, which had characterized the last half of
22 the 1990's, had already run its course sometime during the third quarter of
23 2000. Disappointing economic data releases, since the beginning of

1 2001, preceded the September 11, 2001 terrorist attacks on the World
2 Trade Center and the Pentagon which are now regarded as a defining
3 point during this economic slump. From January 2001 to June 2003 the
4 Federal Reserve cut interest rates a total of thirteen times in order to
5 stimulate growth. During this period, the federal funds rate fell from 6.50
6 percent to 1.00 percent. The FOMC reversed this trend on June 29, 2004
7 and raised the federal funds rate 25 basis points to 1.25 percent. From
8 June 29, 2004 to January 31, 2006, the FOMC raised the federal funds
9 rate thirteen more times to a level of 4.50 percent during a period in which
10 the economic picture turned considerably brighter as both Inflation and
11 unemployment fell, wages increased and the overall economy, despite
12 continued problems in housing, grew briskly.¹³

13
14 The FOMC's January 31, 2006 meeting marked the final appearance of
15 Alan Greenspan, who had presided over the rate setting body for a total of
16 eighteen years. On that same day, Greenspan's successor, Ben
17 Bernanke, the former chairman of the President's Council of Economic
18 Advisers, and a former Fed governor under Greenspan from 2002 to
19 2005, was confirmed by the U.S. Senate to be the new Federal Reserve
20 chief. As expected by Fed watchers, Chairman Bernanke picked up
21 where his predecessor left off and increased the federal funds rate by 25
22 basis points during each of the next three FOMC meetings for a total of

¹³ Henderson, Nell, "Bullish on Bernanke" The Washington Post, January 30, 2007.

1 seventeen consecutive rate increases since June 2004, and raising the
2 federal funds rate to a level of 5.25 percent. The Fed's rate increase
3 campaign finally came to a halt at the FOMC meeting held on August 8,
4 2006, when the FOMC decided not to raise rates. Once again, the Fed
5 managed to engineer a soft landing.

6
7 **Q. What has been the state of the economy since 2007?**

8 A. Reports in the mainstream financial press during the majority of 2007
9 reflected the view that the U.S. economy was slowing as a result of a
10 worsening situation in the housing market and higher oil prices. The
11 overall outlook for the economy was one of only moderate growth at best.
12 Also during this period the Fed's key measure of inflation began to exceed
13 the rate setting body's comfort level.

14
15 On August 7, 2007, the beginning of what is now being referred to as the
16 Great Recession; the FOMC decided not to increase or decrease the
17 federal funds rate for the ninth straight time and left its target rate
18 unchanged at 5.25 percent.¹⁴ At the time of the Fed's decision, analysts
19 speculated that a rate cut over the next several months was unlikely given
20 the Fed's concern that inflation would fail to moderate. However, during
21 this same period, evidence of an even slower economy and a possible

¹⁴ Ip, Greg, "Markets Gyrate As Fed Straddles Inflation, Growth" The Wall Street Journal, August 8, 2007

1 recession was beginning to surface. Within days of the Fed's decision to
2 stand pat on rates, a borrowing crisis rooted in a deterioration of the
3 market for subprime mortgages, and securities linked to them, forced the
4 Fed to inject \$24 billion in funds (raised through its open market
5 operations) into the credit markets.¹⁵ By Friday, August 17, 2007, after a
6 turbulent week on Wall Street, the Fed made the decision to lower its
7 discount rate (i.e. the rate charged on direct loans to banks) by 50 basis
8 points, from 6.25 percent to 5.75 percent, and took steps to encourage
9 banks to borrow from the Fed's discount window in order to provide
10 liquidity to lenders. According to an article that appeared in the August 18,
11 2007 edition of The Wall Street Journal,¹⁶ the Fed had used all of its tools
12 to restore normalcy to the financial markets. If the markets failed to settle
13 down, the Fed's only weapon left was to cut the Federal Funds rate –
14 possibly before the next FOMC meeting scheduled on September 18,
15 2007.

16
17 **Q. Did the Fed cut rates as a result of the subprime mortgage borrowing**
18 **crises?**

19 **A.** Yes. At its regularly scheduled meeting on September 18, 2007, the
20 FOMC surprised the investment community and cut both the federal funds
21 rate and the discount rate by 50 basis points (25 basis points more than

¹⁵ Ip, Greg, "Fed Enters Market To Tamp Down Rate" The Wall Street Journal, August 9, 2007

¹⁶ Ip, Greg, Robin Sidel and Randall Smith, "Fed Offers Banks Loans Amid Crises" The Wall Street Journal, August 9, 2007

1 what was anticipated). This brought the federal funds rate down to a level
2 of 4.75 percent. The Fed's action was seen as an effort to curb the
3 aforementioned slowdown in the economy. Over the course of the next
4 four months, the FOMC reduced the Federal funds rate by a total 175
5 basis points to a level of 3.00 percent – mainly as a result of concerns that
6 the economy was slipping into a recession. This included a 75 basis point
7 reduction that occurred one week prior to the FOMC's meeting on January
8 29, 2008.

9
10 **Q. What actions has the Fed taken in regard to interest rates since the**
11 **beginning of 2008?**

12 A. The Fed made two more rate cuts which included a 75 basis point
13 reduction in the federal funds rate on March 18, 2008 and an additional 25
14 basis point reduction on April 30, 2008. The Fed's decision to cut rates
15 was based on its belief that the slowing economy was a greater concern
16 than the current rate of inflation (which the majority of FOMC members
17 believed would moderate during the economic slowdown).¹⁷ As a result of
18 the Fed's actions, the federal funds rate was reduced to a level of 2.00
19 percent. From April 30, 2008 through September 16, 2008, the Fed took
20 no further action on its key interest rate. However, the days before and
21 after the Fed's September 16, 2008 meeting saw longstanding Wall Street

¹⁷ Ip, Greg, "Credit Worries Ease as Fed Cuts, Hints at More Relief" The Wall Street Journal,
March 19, 2008

1 firms such as Lehman Brothers, Merrill Lynch and AIG failing as a result of
2 their subprime holdings. By the end of the week, the Bush administration
3 had announced plans to deal with the deteriorating financial condition
4 which had now become a worldwide crisis. The administrations actions
5 included former Treasury Secretary Henry Paulson's request to Congress
6 for \$700 billion to buy distressed assets as part of a plan to halt what has
7 been described as the worst financial crisis since the 1930's¹⁸. Amidst this
8 turmoil, the Fed made the decision to cut the federal funds rate by another
9 50 basis points in a coordinated move with foreign central banks on
10 October 8, 2008. This was followed by another 50 basis point cut during
11 the regular FOMC meeting on October 29, 2008. At the time of this
12 writing, the federal funds target rate now stands at 0.25 percent, the result
13 of a 75 basis point cut announced on December 16, 2008.

14
15 **Q. What is the current rate of inflation in the U.S.?**

16 **A.** As can be seen on Schedule WAR-8, the current rate of inflation, as
17 measured by the consumer price index, is at 2.90 percent according to
18 information provided by the U.S. Department of Labor's Bureau of Labor
19 Statistics.¹⁹

20
21

¹⁸ Soloman, Deborah, Michael R. Crittenden and Damian Paletta, "U.S. Bailout Plan Calms Markets, But Struggle Looms Over Details" The Wall Street Journal, September 20, 2008

¹⁹ <http://www.bls.gov/news.release/cpi.nr0.htm>

1 **Q. Has the Fed raised interest rates in anticipation of higher inflation?**

2 A. No. The FOMC has not raised interest rates to date. The Fed's plan to
3 buy \$600 billion of U.S. government bonds over an eight month period,
4 known as quantitative easing stage two or QE2,²⁰ was completed during
5 the summer of 2011. The attempt to drive down long-term interest rates
6 and encourage more borrowing and growth by increasing the money
7 supply has yet to stimulate the economy, however, fears of a double dip
8 recession seem to have subsided. At its August 9, 2011 meeting, the
9 FOMC announced that it intended to keep interest rates at their current
10 levels for at least the next two years warning that the economy would
11 remain weak for some time but that the Fed is prepared to take further
12 steps to shore it up.²¹

13
14 **Q. Has the Fed taken any recent action, such as QE2, to stimulate the**
15 **economy?**

16 A. Yes. At the close of the FOMC's September meeting the Fed announced
17 its decision to implement a plan that resembles a 1961 Federal Reserve
18 program known as "Operation Twist".²² Under this plan, the Fed will sell
19 \$400 billion in Treasury securities that mature within three years. The

²⁰ Hilsenrath, Jon, "Fed Fires \$600 Billion Stimulus Shot" The Wall Street Journal, November 4, 2010

²¹ Reddy, Sudeep and Jonathan Cheng "Markets Sink Then Soar After Fed Speaks" The Wall Street Journal, August 10, 2011

²² Hilsenrath, Jon and Luca Di Leo "Fed Launches New Stimulus" The Wall Street Journal, September 22, 2011

1 proceeds from these sales will then be reinvested into securities that
2 mature in six to thirty years. This action would significantly alter the
3 balance of the Fed's holdings toward long-term securities. In addition to
4 selling off its shorter term Treasury holdings, the Fed will take the
5 proceeds from its maturing mortgage-backed securities and reinvest them
6 in other mortgage backed securities. For the past year, the Fed has been
7 reinvesting that money into Treasury bonds, shrinking its mortgage
8 portfolio. The overall goal of the Fed's plan is to reduce long-term interest
9 rates in the hope of boosting investment and spending and provide a shot
10 in the arm to the beleaguered housing sector of the economy. During its
11 most recent FOMC meeting held on March 13, 2012, the Fed decided not
12 to make any changes to existing interest rates. After the meeting Fed
13 officials reiterated their prior position that they expected short-term interest
14 rates to stay close to zero "at least through late 2014," which is even
15 longer than indicated prior to January 2012. In a prepared statement
16 released after their meeting, Fed officials noted that labor market
17 conditions have "improved further" and the unemployment rate "has
18 declined notably in recent months but remains elevated."²³

19
20
21 ...
22

²³ Peterson, Kristina and Tom Barkley and Jeffrey Sparshott, "Fed Stands Pat" The Wall Street Journal, March 13, 2012

1 **Q. Has there been any noticeable drop in long-term rates since the Fed**
2 **announced its plan to purchase longer term Treasury instruments?**

3 A. Yes. As can be seen in Attachment D, the yield on the 30-year Treasury
4 bond has from fallen from 4.56 percent to 3.09 percent since March 2,
5 2011.

6
7 **Q. Putting this all into perspective, how have the Fed's actions since**
8 **2000 affected the yields on Treasury Instruments and benchmark**
9 **interest rates?**

10 A. As can be seen on Schedule WAR-8, current Treasury yields are
11 considerably lower than corresponding yields that existed during the year
12 2000 and U.S. Treasury instruments, are for the most part, still at
13 historically low levels. As can be seen on the first page of Attachment D,
14 the previously mentioned federal discount rate (the rate charged to the
15 Fed's member banks), has remained steady at 0.75 percent since
16 November of 2010.

17
18 As of February 29, 2012, leading interest rates that include the 3-month,
19 6-month and 1-year treasury yields have dropped from their March 2011
20 levels. Longer term yields including the 5-year, 10-year and 30-year have
21 all fallen from levels that existed a year ago. The same is true for the 30-
22 year Zero rate. The prime rate has remained constant at 3.25 percent
23 over the past year, as has the benchmark federal funds rate discussed

1 above. A previous trend, described by former Chairman Greenspan as a
2 “conundrum”²⁴, in which long-term rates fell as short-term rates increased,
3 thus creating a somewhat inverted yield curve that existed as late as June
4 2007, is completely reversed and a more traditional yield curve (one
5 where yields increase as maturity dates lengthen) presently exists. The 5-
6 year Treasury yield, used in my CAPM analysis, has decreased 131 basis
7 points from 2.17 percent, in March 2011, to 0.86 percent as of February
8 29, 2012.

9
10 **Q. What are the current yields on utility bonds?**

11 A. Referring again to Attachment D, as of February 8, 2012, 25/30-year A-
12 rated utility bonds were yielding 4.05 percent (164 basis points lower than
13 a year ago) and 25/30-year Baa/BBB-rated utility bonds were yielding 4.53
14 percent (down 155 basis points from a year earlier).

15
16 **Q. What is the current outlook for the economy?**

17 A. The current outlook on the economy is that a slide into recession is
18 unlikely. Housing construction is showing signs of improvement and
19 jobless claims appear to be falling. However, rising oil prices may have a
20 negative effect on GDP growth projections. Value Line’s analysts offered
21 this perspective in the March 9, 2012 edition of Value Line’s Selection and
22 Opinion publication:

²⁴ Wolk, Martin, “Greenspan wrestling with rate ‘conundrum’,” MSNBC, June 8, 2005

1 **"Housing is starting to show some life,** after more than
2 a half decade in which this sector had stumbled badly.
3 Evidence of this progressively better trend can be seen in
4 data on housing starts and building permits (both of which
5 rose in January), as well as in sales of existing homes,
6 which also perked up. Further, new home sales are
7 steadying; a report on pending home sales was
8 encouraging; and inventories of unsold homes are now
9 falling. Such improvements stem, we think, from growth in
10 hiring, increased credit availability, and greater housing
11 affordability."
12

13 Value Line's analysts went on to say:

14 **"Still, the presumptive recovery in this area is likely to**
15 **be agonizingly slow and frustratingly uneven.** In fact,
16 the next year may well see some backing and filling within
17 the confines of a generally rising long-term trend. Housing
18 had taken a severe beating, and after such a sharp
19 reversal, it is quite normal that a long basing period would
20 follow. We add that it could be years before earlier highs
21 in sales and prices will be revisited."
22
23

24 Value Line's analysts continued to state:

25 **"The picture is muddled in other areas.** For example,
26 we are seeing mixed trends in industrial output and factory
27 use. Moreover, orders for durable goods fell sharply in
28 January, but consumer confidence increased strongly.
29 Finally, jobless claims are mostly trending lower, but oil
30 prices are soaring. Adding it all up, we think that GDP will
31 rise by 2.0% - 2.5% this year — unless oil prices surge
32 further in the months to come."
33

34 **Q. How are water utilities such as Pima faring in the current economic**
35 **environment?**

36 **A. While, as always, there are concerns regarding long-term infrastructure**
37 **requirements, Value Line analyst Andre J. Costanza stated in his January**
38 **20, 2012 quarterly water industry update (Attachment A) that water utilities**
39 **are being viewed as safe havens during the current period of economic**

1 uncertainty – even though they are regarded as less than stellar
2 investments. Mr. Costanza went on to state the following:

3 “The Water Utility Industry has held up relatively well since
4 our last visit in October. Although a slew of recently
5 released economic data suggests that the housing and job
6 market are on the road to recovery, many still-wary pundits
7 appear to be reserving judgment until there are clearer
8 signs of stability. Some are even saying that the uptick in
9 jobs and new home sales is being artificially supported,
10 and that another downturn could be on the horizon. Either
11 way, investors’ cautious approach is evident, with many
12 continuing to seek shelter from potential market volatility in
13 the relatively safe Water Utility Industry. As a result, the
14 group, as a whole, ranks in the upper rungs of The Value
15 Line Investment Survey for Timeliness.

16
17 That being said, not all that operate in this space have
18 exactly been supporting their own causes. Many ran into
19 trouble in the most recent quarter, raising concern that the
20 group may have difficulty growing earnings in the months
21 ahead. Burgeoning maintenance and capital expenditure
22 costs remain a problem, despite more favorable regulatory
23 backing.

24
25 Still, the group’s income component has historically been
26 its attraction. Steady dividend growth ought to continue to
27 pique investor interest, but for how long, given a plethora
28 of alternatives and financial constraints that may well limit
29 capital deployment in the future.”
30

31
32 **Q. How has Arizona fared in terms of the overall economy and home**
33 **foreclosures?**

34 **A. Arizona was one of the states hit hardest during the Great Recession and**
35 has lagged during the current recovery.²⁵ During the period between 2006
36 and 2009, statewide construction spending fell by 40.00 percent.
37 According to information provided by Irvine, California-based RealtyTrac

²⁵ Beard, Betty, “Recession hit Arizona hardest” The Arizona Republic, March 6, 2011

1 on January 9, 2012, Arizona ranks second in the nation in foreclosures
2 behind Nevada and ahead of California. According to RealtyTrac, Arizona
3 had the nation's second highest state foreclosure rate for the third year in
4 a row, with 4.14 percent of the state's housing units (one in 24) with at
5 least one foreclosure filing in 2011. This despite a 28.00 percent drop in
6 foreclosure activity from November 2011 to December 2011 which was
7 caused largely by a 41.00 percent drop in scheduled foreclosure
8 auctions.²⁶

9
10 **Q. What is the current unemployment situation in Arizona during this**
11 **period of economic recovery?**

12 A. According to information published on January 20, 2012, and displayed on
13 the website of the Arizona Department of Administration's Office of
14 Employment and Population Statistics,²⁷ the seasonally adjusted
15 unemployment rate for Arizona remained steady at 8.70 percent in
16 November and December 2011. At the time that this information was
17 compiled, Arizona's rate of unemployment was slightly higher than the
18 U.S. unemployment rate²⁸ which stood at 8.50 percent during December
19 2011 as can be seen below:

²⁶ RealtyTrack Staff, "Year-End Foreclosure Report: Foreclosures on the Retreat," RealtyTrack, January 9, 2012.

²⁷ Arizona Department of Administration's Office of Employment and Population Statistics
<http://www.workforce.az.gov/>

²⁸ U.S. Bureau of Labor Statistics Economic News Release dated June 3, 2011
<http://www.bls.gov/news.release/empsit.nr0.htm>

**Arizona, U.S. Economic Indicators
Unemployment Rate (Seasonally Adj.)**

	<u>Dec '11</u>	<u>Nov '11</u>	<u>Oct '11</u>
United States	8.5%	8.7%	9.0%
Arizona	8.7%	8.7%	9.0%
Arizona unadjusted rate	8.7%	8.4%	8.9%

In January 2012 the U. S. rate was 8.30 percent. According to the January 2, 2012 Arizona Department of Administration's Office of Employment and Population Statistics report, the December 2011 rates of unemployment by county as follows:

County Unemployment Rates - December 2011

Apache	15.5%
Cochise	8.1%
Coconino	8.5%
Gila	10.0%
Graham	10.0%
Greenlee	8.2%
La Paz	9.7%
Maricopa	7.7%
Mohave	10.1%
Navajo	14.7%
Pima	7.9%
Pinal	10.4%
Santa Cruz	15.2%
Yavapai	9.6%
Yuma	23.1%

As noted earlier, Pima provides service to ratepayers in Maricopa County. While Sun Lakes is a retirement community, retirees nationwide have suffered from the economic downturn in regard to their returns on retirement plans such as 401(k)'s.

1 **Q. After weighing the economic information that you've just discussed,**
2 **do you believe that the 9.40 percent cost of equity capital that you**
3 **have estimated is reasonable for the Company?**

4 A. I believe that my recommended 9.40 percent cost of equity capital, which
5 is 487 basis points higher than the current 4.53 percent yield on a
6 Baa/BBB-rated utility bond, will provide Pima with a reasonable rate of
7 return on invested capital when data on interest rates (that are low by
8 historical standards), the current state of the economy, current rates of
9 unemployment (both nationally and in Arizona), and the Fed's decision to
10 keep interest rates at their current levels into the latter part of 2014 are all
11 taken into consideration. As I noted earlier, the Hope decision determined
12 that a utility is entitled to earn a rate of return that is commensurate with
13 the returns it would make on other investments with comparable risk. I
14 believe that my cost of equity analysis, which is just below the high side of
15 the range of results I obtained from both the DCF and CAPM models, has
16 produced such a return.

17
18 **COST OF DEBT**

19 **Q. Have you reviewed Pima's testimony on the Company-proposed cost**
20 **of long-term debt?**

21 A. Yes.
22
23

1 **Q. What is Pima proposing in regard to the cost of long term-debt?**

2 A. Pima is proposing a weighted cost of debt of 7.182 percent which is
3 comprised of a 7.696 percent cost associated with existing Maricopa
4 County Industrial Development Authority ("IDA") bonds and a pro-forma
5 6.620 percent cost of debt on a pending \$8,370,000 loan agreement –
6 possibly with Wells Fargo Bank, NA ("Wells Fargo"). According to Water
7 and Wastewater Division financing applications²⁹ filed with the
8 Commission on November 8, 2011, Pima intends to use \$1,500,000 of the
9 proposed loan proceeds to fund force main replacement projects in the
10 sewer system and to refurbish certain outdated sewer facilities.
11 \$4,370,000 will be used to refinance Pima's existing IDA bonds at a lower
12 interest rate and \$2,500,000 to will be used to rebalance the capital
13 structure by replacing equity with debt.

14
15 **Q. What is the cost of debt associated with the proposed loan**
16 **agreement?**

17 A. Pima is proposing a cost of debt of 6.620 percent (5.50 percent actual
18 interest and 1.120 percent in issuance costs). However, as in most
19 lending arrangements, the final interest rate is not known until the loan is
20 actually executed. During the preparation of the Staff Report on Pima's

²⁹ In its financing applications, Pima requested that the Commission enter an order authorizing the Company to incur indebtedness in an amount not to exceed \$8,370,000 for a term not to exceed 7 years at an interest rate not to exceed 5.5 percent, and to encumber its real property and utility plant and system to secure such indebtedness.

1 financing applications, the Company filed an amended term sheet which
2 revised the anticipated rate of interest from 5.50 percent to 3.65 percent.³⁰
3

4 **Q. What is the current status of Pima's financing request?**

5 A. The Commission is scheduled to vote on Pima's request during the
6 Regular Open Meeting scheduled for March 27, 2012 which is the same
7 date that the direct testimony on Pima's Consolidated Application will be
8 filed. The Administrative Law Judge assigned to the matter has
9 recommended approval of the Company's request based on the
10 recommendations contained in a Staff Report that was filed on February 7,
11 2012. On February 15, 2012, Pima filed comments to the Staff Report
12 and stated the following:

13 "Pima thanks Staff for their timely issuance of their Staff
14 Report and respectfully urges the Commission to act
15 promptly on this matter. Company and counsel are well
16 aware of the agency's strained resources. However, in this
17 case, prompt approval inures to the direct benefit of
18 ratepayers, who will benefit from the lower cost of capital in
19 their rates. The Commission has encouraged utilities to
20 use low cost debt in their capital planning and Pima has
21 secured financing **at today's historically low rates**
22 [emphasis added]."
23

24 **Q. What cost of long-term debt are you recommending for Pima?**

25 A. Because a final decision on Pima's financing application will not be
26 available until after my direct testimony is filed and I do not know what the
27 final cost of the proposed loan agreement will be, I am recommending that

³⁰ On January 6, 2012, Pima filed an amended term sheet revising the anticipated maturity date on the proposed loan to 5 years from 5-year and 7-year alternatives and showing the offered interest rate (5-year London Interbank Offer Rate ("LIBOR") plus 2.00 percent) at 3.65 percent.

1 the Commission adopt the Company-proposed cost of IDA Bond debt of
2 6.62 percent only at this time. However, I reserve the right to modify my
3 recommendation based on the Commission's final decision and on the
4 terms that are contained in an executed loan agreement between Pima
5 and a third-party lender.

6
7 **CAPITAL STRUCTURE**

8 **Q. Have you reviewed Pima's testimony regarding the Company's**
9 **proposed capital structure?**

10 A. Yes.

11 **Q. Please describe the Company's proposed capital structure.**

12 A. The Company is proposing a capital structure comprised of 31.08 percent
13 long-term debt and 68.92 percent common equity which reflects Pima's
14 intent to refinance existing IDA debt with an anticipated loan through Wells
15 Fargo. Under the Company's proposal, Pima's capital assets would be
16 financed by \$8,370,000 in long-term debt and \$18,563,072 in common
17 equity.

18
19 **Q. What capital structure are you recommending for Pima?**

20 A. Because of the uncertainty regarding Pima's financing application, I am
21 recommending that the Commission adopt the Company's adjusted end of
22 test year capital structure comprised of 22.53 percent long-term debt and
23 77.47 percent common equity. However, as with my recommended cost

1 of long-term debt, I am reserving the right to modify my recommendation
2 based on the Commission's final decision on Pima's financing application.
3

4 **Q. Is Pima's adjusted test year capital structure in line with industry**
5 **averages?**

6 A. No. As can be seen in Schedule WAR-9, Pima's adjusted test year capital
7 structure is heavier in equity than the capital structures of the water
8 utilities in my sample and would be perceived by investors as having lower
9 financial risk. The same is true in the case of my LDC sample.
10

11 **Q. Have you made a downward adjustment to your recommended cost**
12 **of equity that reflects the fact that Pima's capital structure is heavier**
13 **in equity than the capital structures of your sample utilities?**

14 A. No, and I do not want to make any such adjustment until after the
15 Commission makes a decision on Pima's financing application.
16

17 **WEIGHTED AVERAGE COST OF CAPITAL**

18 **Q. How does the Company's proposed weighted average cost of capital**
19 **compare with your recommendation?**

20 A. The Company has proposed a weighted average cost of capital of 9.47
21 percent. This figure is the result of a weighted average of Pima's
22 proposed 7.182 percent cost of long-term debt and 10.50 percent cost of
23 common equity capital. The Company-proposed 9.47 percent weighted

1 cost of capital is 46 basis points higher than the 9.01 percent weighted
2 cost of capital that I am recommending. Again my figure will most likely
3 change once a final decision is out on Pima's financing application.
4

5 **COMMENTS ON THE COMPANY-PROPOSED COST OF EQUITY CAPITAL**

6 **Q. How does your recommended cost of equity capital compare with**
7 **the cost of equity capital proposed by the Company?**

8 A. The Company's cost of capital witness, Mr. Bourassa, is recommending a
9 cost of common equity of 10.50 percent. His 10.05 percent cost of equity
10 capital is 110 basis points higher than the 9.40 percent cost of equity
11 capital that I have calculated.
12

13 **Q. What methods did Mr. Bourassa use to arrive at his proposed cost of**
14 **common equity for the Company?**

15 A. Mr. Bourassa used both the DCF and CAPM methods. He also relies on a
16 third valuation method known as a Build-up method that does not require
17 the use of market betas as does the CAPM. His DCF analysis relies on
18 the same constant growth version of the DCF model that I have used with
19 two different growth estimates: a past and future growth estimate which
20 produces a 9.20 percent indicated cost of equity, and a future growth
21 estimate which produces a 9.80 percent indicated cost of equity. The
22 average of the results of these two DCF methodologies is 9.50 percent.
23 Mr. Bourassa's CAPM analysis also uses the same model that I have

1 used but he obtains two different results: one obtained by using an
2 historical risk premium and the other by using a current market risk
3 premium. His CAPM analysis produces results of 10.00 percent using an
4 historical risk premium and 12.40 percent using a current market risk
5 premium. His average CAPM result is 11.20 percent.

6
7 **Q. What are the main reasons for the difference in the results that you**
8 **obtained from your DCF analysis and the results that Mr. Bourassa**
9 **obtained from his DCF analysis using the constant growth model?**

10 **A. Mr. Bourassa conducted his analysis during the later part of July 2011 and**
11 **consequently much of the data that he used in his analysis is now eight**
12 **months old. This can be seen in a price comparison of five of the water**
13 **company stocks that we both used in our samples: The difference**
14 **between the average adjusted closing stock prices used in my DCF model**
15 **and spot prices used by Mr. Bourassa in his DCF models are as follows:**

	<u>Rigsby</u>	<u>Bourassa</u>	<u>Difference</u>
AWR	\$36.63	\$34.75	\$1.88
CWT	\$18.43	\$19.13	(\$0.70)
MSEX	\$18.65	\$18.82	(\$0.17)
SJW	\$23.83	\$24.29	(\$0.46)
WTR	\$22.01	\$22.24	(\$0.23)

As can be seen above, four of the five water stocks that our samples have in common have fallen in value since July 22, 2011 when Mr. Bourassa recorded the closing spot prices used in his DCF model. Since, with the exception of CWT, there is little difference in the projected dividends used in our respective DCF models, the more current prices used in my model result in a lower current dividend yield which can be seen as follows:

	<u>Rigsby</u>	<u>Bourassa</u>	<u>Difference</u>
AWR	3.06%	3.11%	(5) bps
CWT	3.34%	6.43%	(309) bps
MSEX	3.97%	3.55%	42 bps
SJW	2.90%	3.88%	(98) bps
WTR	3.00%	2.83%	(17) bps

In the case of CWT, the higher 6.43 percent yield calculated by Mr. Bourassa reflects a previous annual dividend payment of \$1.19, as opposed to the current payment of \$0.62, which was in effect prior to a 2 for 1 stock split that occurred in June 2011.

Q. What are the differences between your constant growth DCF results and Mr. Bourassa's constant growth models?

A. As I stated earlier, Mr. Bourassa did not rely on a sample of natural gas utilities so my comparison is limited to our respective water utility samples.

1 Much of the difference between our results is attributable to the utilities
2 that were included in our samples. As I explained earlier in my testimony,
3 Mr. Bourassa's sample included one water company that I excluded
4 because Value Line does not provide the long-term projections on it which
5 I use to develop my growth estimates for the "g" component of the DCF
6 model. My 3.25 percent average dividend yield for water companies falls
7 between his average annual dividend yields of 3.46 percent to 3.08
8 percent. Mr. Bourassa's 3.82 percent average current dividend yield of
9 the five utilities that our samples have in common (based on my 8-week
10 average adjusted closing prices listed above) would be 57 basis points
11 higher than my 3.25 percent relying on his method for calculating the
12 current dividend yield. In regard to our growth (i.e. "g" component of the
13 DCF model) estimates, Mr. Bourassa's estimates of 5.27 percent to 5.78
14 percent are 8 basis points to 59 basis points higher than my average
15 growth estimate of 5.19 percent.

16
17 **Q. Do you agree with Mr. Bourassa's rationale for not using Value Line**
18 **estimates of DPS growth in the estimation of a growth rate for the**
19 **DCF model?**

20 **A.** No, I do not. In explaining his reason for this Mr. Bourassa also admits
21 that DPS projections are not available for the one water utility that I
22 excluded in my sample. While in this case Mr. Bourassa admits that the
23 projected DPS growth rate of 4.13 percent is higher than the historical

1 growth rate of 3.33 percent, he has essentially made an argument in prior
2 cases that the DPS element of growth should be selectively ignored if it
3 depresses an overall growth rate that also includes EPS and BVPS.
4

5 **Q. Do you agree with Mr. Bourassa?**

6 A. No. I believe that all elements of growth should be considered in
7 calculating a growth component for the DCF. This is what I've done to
8 arrive at my DCF growth estimates.
9

10 **Q. What are the main differences between your CAPM results and Mr.**
11 **Bourassa's CAPM results?**

12 A. The differences between our CAPM results is attributable to his selection
13 of forecasted long-term U.S. Treasury instrument yields used as inputs for
14 the risk-free rate of return and the time period that has expired since Mr.
15 Bourassa filed his direct testimony. Mr. Bourassa's average beta of 0.76
16 has fallen to 0.72 since his testimony was filed, and his current market risk
17 premium figure of 9.70 percent is simply not realistic when compared with
18 the market risk premiums, ranging from 4.50 percent to 6.40 percent, that I
19 obtained from Morningstar's 2011 SBBI Yearbook.
20
21
22 ...
23

1 **Q. Please explain the differences in your risk free rates of return.**

2 A. I relied on an 8-week average yield of 0.81 percent on a 5-year treasury
3 instrument whereas Mr. Bourassa relied on a 5.00 percent average of
4 forecasted 30-year Treasury yields.

5
6 **Q. Do you agree with Mr. Bourassa's reliance on forecasted yields of**
7 **long-term Treasury instruments?**

8 A. No. I believe that an average of the most recent yields on a 5-year
9 Treasury instrument is more appropriate when one takes into account that
10 utilities generally file for new rates every three to five years. Mr.
11 Bourassa's 5.00 percent risk-free rate is based on analysts' forecasts for
12 2012 and 2013 and is 191 basis points higher than the current 3.09
13 percent yield on a 30-year Treasury bond (Attachment 4, Value Line
14 Selection & Opinion page 1709) which I believe is a better indicator of
15 future yields on that instrument.

16
17 **Q. What is the current average beta for the water utilities included in Mr.**
18 **Bourassa's sample?**

19 A. The current average beta for the water utilities included in Mr. Bourassa's
20 sample is 0.72 as opposed to the 0.76 used in his CAPM analysis and the
21 0.71 average beta used in my CAPM analysis using a sample of water
22 utilities. Since Mr. Bourassa's direct testimony was filed in August 2011,
23 the betas for all of the water companies in his sample, with the exception

1 of WTR, dropped by 0.05 respectively, indicating lower risk, in terms of
2 beta, for these companies.

3
4 **Q. What are the differences in the market risk premiums that you used**
5 **in your CAPM analyses?**

6 A. As I explained earlier in my testimony, my market risk premiums are the
7 6.30 percent arithmetic and 4.50 percent geometric means of the
8 differences between the return on the broader stock market and the yields
9 of intermediate term U.S. Treasury instruments over the 1926 – 2010 time
10 frame (obtained from Morningstar's 2011 SBBI Yearbook). Mr. Bourassa
11 relied on a 6.70 percent historical risk premium (which also relied on
12 Morningstar data) and a 9.70 percent current market risk premium, which
13 was computed using the DCF model and data on 1,700 stocks followed by
14 Value Line.

15
16 **Q. Do you agree with Mr. Bourassa's 9.70 percent current market risk**
17 **premium?**

18 A. No. Mr. Bourassa's 9.70 percent market risk premium is clearly excessive
19 and only represents a snapshot in time. He calculates it by using a DCF
20 model that relies on stock price appreciation for the growth component
21 (i.e. "g"). This results in a 20-month average expected return of 14.15
22 percent. His 9.70 percent risk premium is the difference between the 9.70
23 percent DCF result and the 4.41 percent 20-month average of the yields

1 on a 30-year Treasury instrument. Mr. Bourassa's current market risk
2 premium is not even realistic considering the historic market risk
3 premiums that take into consideration the full spectrum of economic
4 conditions that have occurred since 1926.

5
6 **Q. How did Mr. Bourassa arrive at his final 10.50 percent cost of**
7 **common equity for the Company?**

8 A. Mr. Bourassa's proposed 10.50 percent cost of common equity represents
9 his own judgment and relies on the results of the midpoints of the ranges
10 of estimates he obtained from his various models.

11
12 **Q. Is there any merit in the rationale used by Mr. Bourassa in regard to**
13 **the size arguments stated in his direct testimony?**

14 A. No. One has to take into consideration the fact that the water utilities
15 included in both Mr. Bourassa's and my samples are collections of water
16 systems that are similar to Pima and face the same types of risks as Pima.

17
18 **Q. Has the ACC ever granted a cost of equity based on company size?**

19 A. To the best of my knowledge, the Commission has never granted a higher
20 cost of common equity based on company size.

21
22 ...

1 **Q. Does your cost of capital recommendation take into consideration**
2 **any perceived business risks that the Company might face?**

3 A. Yes. As I stated earlier in my testimony, I believe that the amount of
4 equity contained in my recommended capital structure, which is higher
5 than the percentage of equity contained in my utility samples, and the fact
6 that I have not made any downward adjustment to my recommended 9.40
7 percent cost of equity mitigates any perceived business risk. In addition to
8 this I would also point out that my recommended 9.40 percent cost of
9 common equity is only slightly lower than the higher DCF result obtained
10 from my LDC sample as opposed to the lower DCF result obtained from
11 my sample of water companies.

12
13 **Q. Does your silence on any of the issues, matters or findings**
14 **addressed in the testimony of Mr. Bourassa or any other witness for**
15 **Pima constitute your acceptance of their positions on such issues,**
16 **matters or findings?**

17 A. No, it does not.

18
19 **Q. Does this conclude your testimony on Pima?**

20 A. Yes.

Qualifications of William A. Rigsby, CRRA

EDUCATION:

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Society of Utility and Regulatory Financial Analysts
38th Annual Financial Forum and CRRA Examination
Georgetown University Conference Center, Washington D.C.
Awarded the Certified Rate of Return Analyst designation
after successfully completing SURFA's CRRA examination.

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 & 1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

EXPERIENCE:

Chief of Accounting and Rates
Residential Utility Consumer Office
October 2011 – Present

Public Utilities Analyst V
Residential Utility Consumer Office
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
October 1994 – November 1997

Tax Examiner Technician I / Revenue Auditor II
Arizona Department of Revenue
Transaction Privilege / Corporate Income Tax Audit Units
July 1991 – October 1994

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
Arizona-American Water Company	W-01303A-05-0405	ACRM Filing
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	WS-01303A-06-0491	Rate Increase
UNS Electric, Inc.	E-04204A-06-0783	Rate Increase
Arizona-American Water Company	W-01303A-07-0209	Rate Increase
Tucson Electric Power	E-01933A-07-0402	Rate Increase
Southwest Gas Corporation	G-01551A-07-0504	Rate Increase
Chaparral City Water Company	W-02113A-07-0551	Rate Increase
Arizona Public Service Company	E-01345A-08-0172	Rate Increase
Johnson Utilities, LLC	WS-02987A-08-0180	Rate Increase
Arizona-American Water Company	W-01303A-08-0227 et al.	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
UNS Gas, Inc.	G-04204A-08-0571	Rate Increase
Arizona Water Company	W-01445A-08-0440	Rate Increase
Far West Water & Sewer Company	WS-03478A-08-0608	Interim Rate Increase
Black Mountain Sewer Corporation	SW-02361A-08-0609	Rate Increase
Global Utilities	SW-02445A-09-0077 et al.	Rate Increase
Litchfield Park Service Company	SW-01428A-09-0104 et al.	Rate Increase
UNS Electric, Inc.	E-04204A-09-0206	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-08-09-0257	Rate Increase
Arizona-American Water Company	W-01303A-09-0343	Rate Increase
Bella Vista Water Company	W-02465A-09-0411 et al.	Rate Increase
Chaparral City Water Company	W-02113A-10-0309	Reorganization
Qwest Communications International	T-04190A-10-0194 et al.	Merger
CenturyLink, Inc.	T-04190A-10-0194 et al.	Merger
Southwest Gas Corporation	G-01551A-10-0458	Rate Increase
Arizona-American Water Company	W-01303A-10-0448	Rate Increase
Arizona-American Water Company	W-01303A-11-0101	Reorganization
Bermuda Water Company, Inc.	W-01812A-10-0521	Rate Increase
UNS Gas, Inc.	G-04204A-11-0158	Rate Increase
Arizona Public Service Company	E-01345A-11-0224	Rate Increase
Arizona-American Water Company	W-01303A-09-0343	Deconsolidation
Arizona Water Company	W-01445A-10-0517	Rate Increase
Arizona Water Company	W-01445A-11-0310	Rate Increase

ATTACHMENT A

The Water Utility Industry has held up relatively well since our last visit in October. Although a slew of recently released economic data suggests that the housing and job market are on the road to recovery, many still-wary pundits appear to be reserving judgment until there are clearer signs of stability. Some are even saying that the uptick in jobs and new home sales is being artificially supported, and that another downturn could be on the horizon. Either way, investors' cautious approach is evident, with many continuing to seek shelter from potential market volatility in the relatively safe Water Utility Industry. As a result, the group, as a whole, ranks in the upper rungs of *The Value Line Investment Survey* for Timeliness.

That being said, not all that operate in this space have exactly been supporting their own causes. Many ran into trouble in the most recent quarter, raising concern that the group may have difficulty growing earnings in the months ahead. Burgeoning maintenance and capital expenditure costs remain a problem, despite more favorable regulatory backing.

Still, the group's income component has historically been its attraction. Steady dividend growth ought to continue to pique investor interest, but for how long, given a plethora of alternatives and financial constraints that may well limit capital deployment in the future.

Industry Backdrop

Water providers are responsible for the safe and timely delivery of water to millions of people daily. That being said, these companies are almost as important as the liquid they provide itself. Population growth ought to support healthy demand for the foreseeable future.

And, although purification and distribution standards are stringent, utilities have been riding the wave of improved regulatory climate. Indeed, state regulatory boards, which are also responsible for, among other things, keeping the balance of power between providers and customers, have been far more business friendly in recent memory. This is extremely important given that these boards are required to review and rule on general rate case requests submitted by providers looking to recover costs incurred during distribution. As costs of doing business have swelled, so to has their importance to the livelihoods of many operating in this group.

Composite Statistics: Water Utility Industry									
2007	2008	2009	2010	2011	2012				14-16
3777.9	4004.3	4228.9	4614.5	4775	5125	Revenues (\$mill)			6175
d157.5	384.1	409.6	500.8	570	630	Net Profit (\$mill)			800
NMF	NMF	NMF	40.0%	39.0%	39.0%	Income Tax Rate			39.0%
NMF	1.5%	1.1%	1.0%	1.0%	2.0%	AFUDC % to Net Profit			7.0%
50.9%	52.1%	55.1%	55.3%	55.0%	53.0%	Long-Term Debt Ratio			49.0%
49.1%	47.9%	44.9%	54.7%	45.0%	47.0%	Common Equity Ratio			51.0%
13134.6	12795.2	14011.9	14720.8	15275	15975	Total Capital (\$mill)			17550
14542.8	15611.0	15910.8	17869.0	18350	19400	Net Plant (\$mill)			22250
.4%	4.5%	4.4%	4.9%	5.0%	6.0%	Return on Total Cap'l			8.0%
NMF	6.3%	6.5%	7.7%	8.0%	8.5%	Return on Shr. Equity			9.0%
NMF	6.3%	6.5%	7.7%	8.0%	8.5%	Return on Com Equity			9.0%
NMF	3.0%	2.1%	3.1%	3.0%	3.5%	Retained to Com Eq			4.0%
NMF	51%	68%	60%	57%	55%	All Div'ds to Net Prof			53%
NMF	20.7	19.3	17.3			Avg Ann'l P/E Ratio			21.0
NMF	1.25	1.29	1.10			Relative P/E Ratio			1.40
2.3%	2.5%	3.5%	3.4%			Avg Ann'l Div'd Yield			2.8%

Bold figures are Value Line estimates

INDUSTRY TIMELINESS: 16 (of 98)

Rising Costs of Doing Business

As time goes by many already aging water infrastructures grow older and need repair, or perhaps complete overhauls. These costs have soared into the hundreds of millions of dollars and are not likely to subside anytime soon, without repercussions. A more business-friendly regulatory environment is offsetting some of the burden, but expenses related to doing business are eating away at profit margins.

Meanwhile, most that operate in this segment are not exactly flush with cash. Balance sheets are highly leveraged, so the cash coffers are usually strapped. Although external financing has become routine, the financial constraints are precluding most from being more active on the acquisition front.

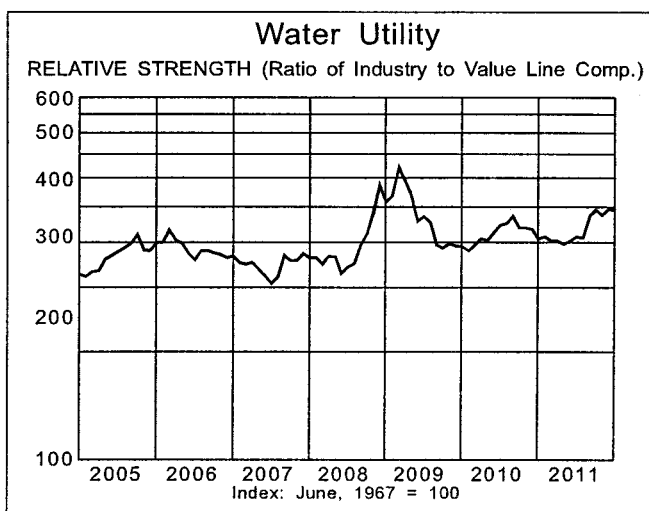
Conclusion

Favorable housing and job reports have given the broader market some legs in recent weeks, which would appear to spell bad news for this group. However, the economy has been turbulent, and if the naysayers are right, now may be a good time for investors seeking capital preservation and a steady stream of income to dip into the Water Utility Industry.

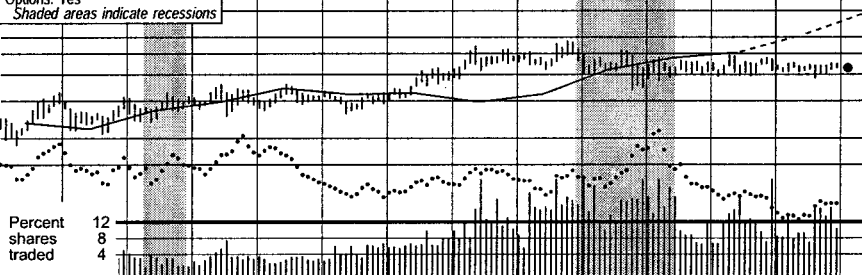
Although not known for its growth potential, this sector offers a number of promising income producers, none of which are more prominent than *Middlesex Water Company*. It sports a nearly 4% yield and a 2 (Above Average) Safety rank. *American States Water*, however, is another interesting choice. Top ranked for Timeliness, it too has a healthy dividend yield and exceedingly better 3- to 5-year price appreciation appeal.

That said, prospective investors should keep in mind the industry's capital restraints and potentially lower yields looking further out. As such, there are better streams of income to be had, especially in the Electric Utility Industry.

Andre J. Costanza



RECENT PRICE	34.29	P/E RATIO	15.0 (Trailing: 13.6 Median: 22.0)	RELATIVE P/E RATIO	1.02	DIV'D YLD	3.3%	VALUE LINE
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[illegible]

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	© VALUE LINE PUB. LLC	14-16
11.03	11.37	11.44	11.02	12.91	12.17	13.06	13.78	13.98	13.61	14.06	15.76	17.49	18.42	19.48	21.41	22.65	23.15	Revenues per sh	24.45
1.75	1.75	1.85	2.04	2.26	2.20	2.53	2.54	2.08	2.23	2.64	2.89	3.31	3.37	3.40	4.23	4.55	4.60	"Cash Flow" per sh	5.15
1.03	1.13	1.04	1.08	1.19	1.28	1.35	1.34	.78	1.05	1.32	1.33	1.62	1.55	1.62	2.22	2.25	2.30	Earnings per sh ^A	2.60
.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	.91	.96	1.00	1.01	1.04	1.10	1.16	Div'd Decl'd per sh ^B	1.32
2.19	2.40	2.58	3.11	4.30	3.03	3.18	2.68	3.76	5.03	4.24	3.91	2.89	4.45	4.18	4.24	4.55	4.75	Cap'l Spending per sh	5.10
10.29	11.01	11.24	11.48	11.82	12.74	13.22	14.05	13.97	15.01	15.72	16.64	17.53	17.95	19.39	20.26	21.85	22.10	Book Value per sh	20.00
11.77	13.33	13.44	13.44	13.44	15.12	15.12	15.18	15.21	16.75	16.80	17.05	17.23	17.30	18.53	18.63	18.75	19.00	Common Shs Outst'g ^C	19.50
11.6	12.6	14.5	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	24.0	22.6	21.2	15.7	15.3		Avg Ann'l P/E Ratio	19.0
.78	.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.36	1.41	1.01	.96		Relative P/E Ratio	1.25
6.7%	5.8%	5.5%	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.5%	2.5%	2.9%	2.9%	3.0%	3.2%		Avg Ann'l Div'd Yield	2.6%

CAPITAL STRUCTURE as of 9/30/11	197.5	209.2	212.7	228.0	236.2	268.6	301.4	318.7	361.0	398.9	425	450	Revenues (\$mill)	535
Total Debt \$345.3 mill. Due in 5 Yrs \$281.0 mill.	20.4	20.3	11.9	16.5	22.5	23.1	28.0	26.8	29.5	41.4	43.0	44.0	Net Profit (\$mill)	52.0
LT Debt \$340.4 mill. LT Interest \$24.0 mill.	43.0%	38.9%	43.5%	37.4%	47.0%	40.5%	42.6%	37.8%	38.9%	43.2%	42.5%	42.0%	Income Tax Rate	40.0%
(LT interest earned: 5.5x: total interest coverage: 5.2x)	--	--	--	--	--	12.2%	8.5%	6.9%	3.2%	5.8%	5.0%	5.0%	AFUDC % to Net Profit	5.0%
(46% of Cap'l)	54.9%	52.0%	52.0%	47.7%	50.4%	48.6%	46.9%	46.2%	45.9%	44.3%	45.5%	45.0%	Long-Term Debt Ratio	47.0%
Leases, Uncapitalized: Annual rentals \$3.3 mill.	44.7%	48.0%	48.0%	52.3%	49.6%	51.4%	53.1%	53.8%	54.1%	55.7%	54.5%	55.0%	Common Equity Ratio	53.0%
Pension Assets-12/10 \$90.2 mill.	447.6	444.4	442.3	480.4	532.5	551.6	569.4	577.0	665.0	677.4	750	765	Total Capital (\$mill)	840
Oblig. \$118.8 mill.	539.8	563.3	602.3	664.2	713.2	750.6	776.4	825.3	866.4	855.0	900	950	Net Plant (\$mill)	1050
Pfd Stock None.	6.1%	6.5%	4.6%	5.2%	5.4%	6.0%	6.7%	6.4%	5.9%	7.6%	7.5%	7.0%	Return on Total Cap'l	8.0%
Common Stock 18,735,254 shs.	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	8.6%	8.2%	11.0%	10.5%	10.5%	Return on Shr. Equity	11.5%
as of 11/14/11	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	8.6%	8.2%	11.0%	10.5%	10.5%	Return on Com Equity	11.5%
MARKET CAP: \$650 million (Small Cap)	3.6%	3.3%	NMF	1.0%	2.8%	2.7%	3.9%	3.1%	3.2%	5.8%	5.5%	5.5%	Retained to Com Eq	6.0%
CURRENT POSITION: 2008 2009 2010 2011/12	65%	65%	113%	84%	67%	67%	58%	64%	61%	47%	48%	51%	All Div'ds to Net Prof	51%

CURRENT POSITION	2009	2010	9/30/11	BUSINESS:
	(\$MILL.)			American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to more than 250,000 customers in 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to nearly 23,250 customers in the city of Big Bear Lake and in areas of San Bernardino County. Sold Chaparral City Water of Arizona (6/11). Has 703 employees. Officers & directors own 2.9% of common stock (4/11 Proxy). Chairman: Lloyd Ross. President & CEO: Robert J. Sprohls. Inc. CA. Addr: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel: 909-394-3600. Internet: www.aswater.com .
Cash Assets	1.7	4.2	5.2	
Other	94.3	200.8	155.0	
Current Assets	96.0	205.0	160.2	
Accts Payable	33.9	36.2	43.7	
Debt Due	18.1	61.4	4.9	
Other	47.7	81.2	67.8	

American States Water is ranked 1 (Highest) for Timeliness. Earnings momentum has been tremendous, with the water utility posting growth of nearly 35% in the third quarter, and 14% through the first nine months of the 2011 (fourth-quarter and full-year results were not released as of the date of our report). The stock becomes even more attractive for those remaining bearish on a macro-economic turnaround, as Wall Street tends to pour money into utilities during times of uncertainty.

The company apparently has come to a resolution regarding its cost of capital request. The Division of Ratepayer Advocates has suggested that the California Public Utilities Commission (CPUC) authorize the company a 9.99% return on equity, and a rate making capital structure of 55% equity/45% debt. The CPUC is expected to sign off on the request. **Nevertheless, rising operating costs are likely to make earnings growth harder to come by this year and thereafter.** We do not think that cost controls will be able to offset the growing infrastructure expenses and repairs that will be necessary as watersystems grow older and in need of repair. **The stock's long-term growth prospects are nothing to write home about.** Even AWR's dividend yield, though healthy versus the *Value Line* median, loses some appeal when compared to its utility brethren.

That said, diversification may well help. Management's expansion into non-regulated areas, namely military bases, could spark earnings growth.

Andre J. Costanza *January 20, 2012*

Calendar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun. 30	Sep. 30	Dec. 31	
2008	68.9	80.3	85.3	84.2	318.7
2009	79.6	93.6	101.5	86.3	361.0
2010	88.4	95.5	111.3	103.7	398.9
2011	94.3	109.8	119.9	101	425
2012	100	115	125	110	450

Calendar	EARNINGS PER SHARE ^A				Full Year
	Mar.31	Jun. 30	Sep. 30	Dec. 31	
2008	.30	.53	.26	.43	1.55
2009	.28	.64	.52	.18	1.62
2010	.45	.47	.62	.71	2.22
2011	.37	.68	.83	.37	2.25
2012	.42	.67	.80	.41	2.30

Calendar	QUARTERLY DIVIDENDS PAID ^B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2008	.250	.250	.250	.250	1.00
2009	.250	.250	.250	.260	1.01
2010	.260	.260	.260	.260	1.04
2011	.260	.280	.280	.280	1.10
2012					

(A) Primary earnings. Excludes nonrecurring gains/(losses): '04, 14¢; '05, 25¢; '06, 6¢; '08, (27¢); '10, (45¢) '11, 20¢. Next earnings report due early March. Quarterly egs. may not add due to rounding.

(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.

(C) In millions, adjusted for split.

Company's Financial Strength	B++
Stock's Price Stability	90
Price Growth Persistence	60
Earnings Predictability	85

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RECENT PRICE	17.81	P/E RATIO	17.5 (Trailing: 18.6 Median: 22.0)	RELATIVE P/E RATIO	1.19	DIV'D YLD	3.5%	VALUE LINE
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(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (4¢); '01, 2¢; '02, 4¢. Next earnings report due late Feb.	(B) Dividends historically paid in early Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.	(C) Incl. deferred charges. In '10: \$2.2 mill., \$0.05/sh. (D) In millions, adjusted for splits. (E) Excludes non-reg. rev.	Company's Financial Strength Stock's Price Stability Price Growth Persistence Earnings Predictability	B+ 90 60 90
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MIDDLESEX WATER NDQ-MSEX

RECENT PRICE **18.69**

P/E RATIO **20.1** (Trailing: 21.0 Median: 23.0)

RELATIVE P/E RATIO **1.37**

DIV'D YLD **4.0%**

VALUE LINE

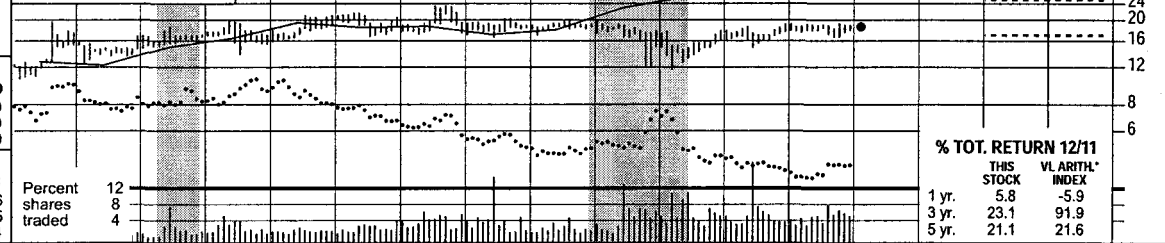
TIMELINESS 4 Lowered 1/20/12
SAFETY 2 New 10/21/11
TECHNICAL 3 Lowered 12/9/11
BETA .70 (1.00 = Market)

LEGENDS
 1.20 x Dividends p sh
 divided by Interest Rate
 Relative Price Strength
 3-for-2 split 1/02
 4-for-3 split 11/03
 Options: No
 Shaded areas indicate recessions

2014-16 PROJECTIONS
 Ann'l Total
 Price Gain Return
 High 25 (+35%) 10%
 Low 17 (-10%) 2%

Insider Decisions
 F M A M J J A S O
 to Buy 0 0 0 0 0 0 1 0 0
 Options 0 0 0 0 0 0 0 0 0
 to Sell 0 1 0 0 0 0 0 0 0

Institutional Decisions
 1Q2011 2Q2011 3Q2011
 to Buy 25 31 36
 to Sell 25 24 25
 Hld's(000) 6200 6377 6334



1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	© VALUE LINE PUB. LLC	14-16
4.56	4.52	4.72	4.39	5.35	5.39	5.87	5.98	6.12	6.25	6.44	6.16	6.50	6.79	6.75	6.60	6.70	6.90	Revenues per sh	8.25
1.01	.94	1.02	1.02	1.19	.99	1.18	1.20	1.15	1.28	1.33	1.33	1.49	1.53	1.40	1.55	1.60	1.70	"Cash Flow" per sh	2.25
.68	.60	.67	.71	.76	.51	.66	.73	.61	.73	.71	.82	.87	.89	.72	.96	.90	.90	Earnings per sh A	1.20
.54	.55	.57	.58	.60	.61	.62	.63	.65	.66	.67	.68	.69	.70	.71	.72	.73	.74	Div'd Decl'd per sh B	.80
1.08	.73	1.20	2.68	2.33	1.32	1.25	1.59	1.87	2.54	2.18	2.31	1.66	2.12	1.49	1.90	4.15	4.40	Cap'l Spending per sh	5.00
5.74	5.85	6.00	6.80	6.95	6.98	7.11	7.39	7.80	8.02	8.26	9.52	10.05	10.03	10.33	11.13	10.75	10.80	Book Value per sh	11.10
8.30	8.41	8.54	9.82	10.00	10.11	10.17	10.36	10.48	11.36	11.58	13.17	13.25	13.40	13.52	15.57	15.70	16.00	Common Shs Outst'g C	17.00
12.2	14.4	13.4	15.2	17.6	28.7	24.6	23.5	30.0	26.4	27.4	22.7	21.6	19.8	21.0	17.8	20.8		Avg Ann'l P/E Ratio	17.0
.82	.90	.77	.79	1.00	1.87	1.26	1.28	1.71	1.39	1.46	1.23	1.15	1.19	1.40	1.13	1.41		Relative P/E Ratio	1.15
6.5%	6.4%	6.3%	5.4%	4.4%	4.2%	3.8%	3.7%	3.5%	3.4%	3.5%	3.7%	3.7%	4.0%	4.7%	4.2%	4.0%		Avg Ann'l Div'd Yield	4.3%

CAPITAL STRUCTURE as of 9/30/11
 Total Debt \$137.2 mill. Due in 5 Yrs \$25.0 mill.
 LT Debt \$132.6 mill. LT Interest \$6.0 mill.
 (LT interest coverage: 4.5x)
 (43% of Cap'l)

Pension Assets-12/10 \$30.0 mill.
 Oblig. \$42.1 mill.
Pfd Stock \$3.4 mill. Pfd Div'd: \$2 mill.

Common Stock 15,634,889 shs.
 as of 10/31/11

MARKET CAP: \$300 million (Small Cap)

CURRENT POSITION	2009	2010	9/30/11
(\$MILL.)			
Cash Assets	4.3	2.5	4.1
Other	17.7	20.3	23.6
Current Assets	22.0	22.8	27.7
Accts Payable	4.3	6.4	5.8
Debt Due	3.7	4.4	4.6
Other	52.7	29.9	37.9
Current Liab.	60.7	40.7	48.3
Fix. Chg. Cov.	325%	400%	425%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '08-'10
Revenues	3.0%	1.5%	3.5%
"Cash Flow"	3.5%	3.5%	7.0%
Earnings	2.5%	4.5%	6.0%
Dividends	2.0%	1.5%	2.0%
Book Value	4.5%	5.5%	1.0%

Cal-endar	QUARTERLY REVENUES (\$ mill.)	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2008	20.8 23.0 25.7 21.5	91.0
2009	20.6 23.1 25.5 22.0	91.2
2010	21.6 26.5 29.6 25.0	102.7
2011	24.0 26.1 28.7 26.2	105
2012	25.0 27.0 31.0 27.0	110

Cal-endar	EARNINGS PER SHARE A	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2008	.15 .26 .35 .13	.89
2009	.10 .21 .29 .12	.72
2010	.11 .31 .37 .17	.96
2011	.17 .23 .32 .18	.90
2012	.18 .25 .37 .20	1.00

Cal-endar	QUARTERLY DIVIDENDS PAID B	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2008	.175 .175 .175 .178	.70
2009	.178 .178 .178 .180	.71
2010	.180 .180 .180 .183	.72
2011	.183 .183 .183 .185	.73
2012		

BUSINESS: Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey, Delaware, and Pennsylvania. It also operates water and wastewater systems under contract on behalf of municipal and private clients in NJ and DE. Its Middlesex System provides water services to 60,000 retail customers, primarily in Middlesex County, New Jersey. In 2010, the Middlesex System accounted for 64% of total revenues. At 12/31/10, the company had 292 employees. Incorporated: NJ. President, CEO, and Chairman: Dennis W. Doll. Officers/directors own 3.39% of the common stock; BlackRock, 7.0%; The Vanguard Group, 5.0% (4/11 proxy). Address: 1500 Ronson Road, Iselin, NJ 08830. Tel.: 732-634-1500. Internet: www.middlesexwater.com.

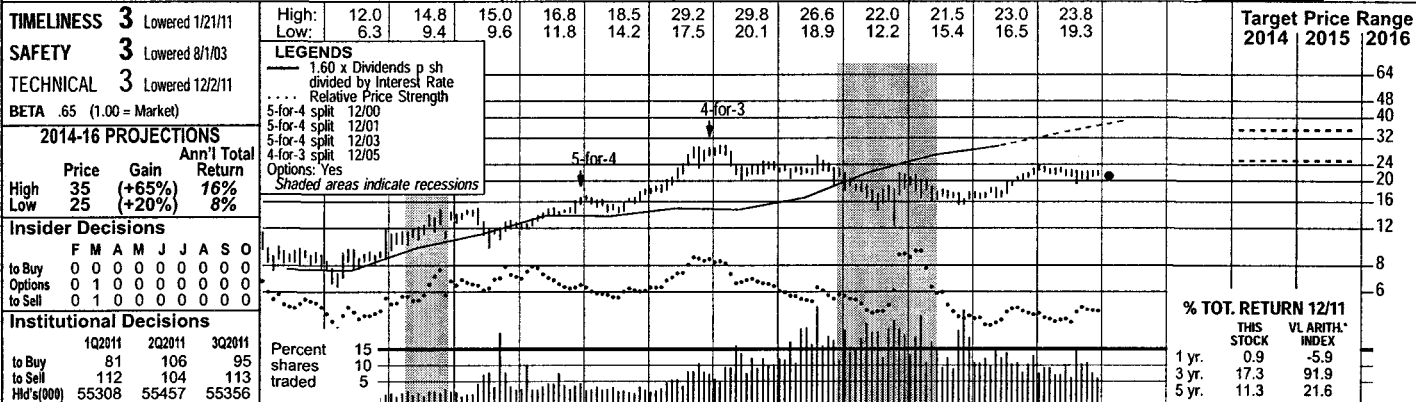
Middlesex Water Company floundered in 2011. The water utility (which offers services to customers in New Jersey, Delaware, and Pennsylvania) will likely report a more than 5% decline in share earnings for the year. That said, the company should bounce back in 2012, on favorable rate rulings and an improving economy, particularly in its favored state of New Jersey, where Middlesex Systems serves over 60,000 customers. **The company instituted a dividend increase**, with the payout going from \$0.183 to \$0.185. The first distribution at the higher level was made on December 1st. **Modest growth in earnings looks to be the norm in the near term.** Lower water consumption (a result of cooler temperatures and a wet winter thus far), is likely to put stress on revenues from the segment. Furthermore, Operations and Management expenses rose 4.5% for the quarter, a result of production related expenses, as well as employee healthcare and post-retirement costs. As these trends are unlikely to fall in the next few years (indeed, the post-retirement and healthcare expenses should show an up-

ward pattern), it is quite likely that the expenses will hinder the bottom line, slowing down earnings growth in the near term. **The company's long-term prospects seem mixed at this time.** Middlesex has several rate cases going forward this year. It filed a \$6.9 million rate request in Delaware in mid-September (mostly to recoup expenses from maintenance outlays), and plans to file a (much larger) case in New Jersey. Favorable outcomes in these cases would work to considerably boost the top and bottom lines for the 3- to 5-year pull. Furthermore, the company has several projects in mind to increase its growth prospects, as well as its customer base for the long-term. However, we remain wary of Middlesex's lackluster expense control. To invest heavily in future projects will result in a rise in expenses, which in turn will work to stress the bottom line. **Income-oriented investors might want to look here.** The good quality equity has an above industry average dividend yield, and with a strong cash flow position, future payouts are quite secure for now.

Sahana Zutshi January 20, 2012

RECENT PRICE	23.50	P/E RATIO	25.5 (Trailing: 27.0 Median: 22.0)	RELATIVE P/E RATIO	1.73	DIV'D YLD	2.9%	VALUE LINE
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<p>(A) Diluted earnings. Excludes nonrecurring losses : '03, \$1.97; '04, \$3.78; '05, \$1.09; '06, \$16.36; '08, \$1.22; '10, 46¢. Next earnings report due late Feb. Quarterly eggs. may not add due to rounding.</p>	<p>(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.</p>	<p>(C) In millions.</p>	<p>Company's Financial Strength B+ Stock's Price Stability 75 Price Growth Persistence 75 Earnings Predictability 85</p>
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1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	© VALUE LINE PUB. LLC	14-16
1.84	1.86	2.02	2.09	2.41	2.46	2.70	2.85	2.97	3.48	3.85	4.03	4.52	4.63	4.91	5.26	5.40	5.70	Revenues per sh	6.70
.47	.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	1.26	1.37	1.42	1.61	1.78	1.95	2.05	"Cash Flow" per sh	2.40
.29	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.70	.71	.73	.77	.90	1.05	1.10	Earnings per sh A	1.40
.22	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.44	.48	.51	.55	.59	.63	.66	Div'd Decl'd per sh B	.78
.52	.48	.58	.82	.90	1.16	1.09	1.20	1.32	1.54	1.84	2.05	1.79	1.98	2.08	2.37	2.25	2.30	Cap'l Spending per sh	2.45
2.46	2.69	2.84	3.21	3.42	3.85	4.15	4.36	5.34	5.89	6.30	6.96	7.32	7.82	8.12	8.51	8.95	9.40	Book Value per sh	11.05
63.74	65.75	67.47	72.20	106.80	111.82	113.97	113.19	123.45	127.18	128.97	132.33	133.40	135.37	136.49	137.97	138.90	139.90	Common Shs Outst'g C	142.90
12.0	15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	34.7	32.0	24.9	23.1	21.1	20.2		Avg Ann'l P/E Ratio	21.0
.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	1.70	1.50	1.54	1.36	1.36		Relative P/E Ratio	1.40
6.2%	4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%	2.1%	2.8%	3.1%	3.1%	3.0%		Avg Ann'l Div'd Yield	2.7%

CAPITAL STRUCTURE as of 9/30/11														307.3	322.0	367.2	442.0	496.8	533.5	602.5	627.0	670.5	726.1	750	800	Revenues (\$mill)	960
Total Debt \$1497.9 mill. Due in 5 Yrs \$300 mill.														58.5	62.7	67.3	80.0	91.2	92.0	95.0	97.9	104.4	124.0	145	155	Net Profit (\$mill)	200
LT Debt \$1402.5 mill. LT Interest \$65.0 mill.														39.3%	38.5%	39.3%	39.4%	38.4%	39.6%	38.9%	39.7%	39.4%	39.2%	40.0%	40.0%	Income Tax Rate	40.0%
(LT interest earned: 4.5x; total interest coverage: 4.5x)														--	--	--	--	--	--	--	--	2.9%	3.1%	3.0%	3.0%	AFUDC % to Net Profit	2.0%
(54% of Cap'l)														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
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														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
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														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
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														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
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														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
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														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
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														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%		
														50.0%	51.0%	51.4%	50.0%	50.0%	51.0%	55.							

Pension Assets-12/10	\$159.2 mill.	52.2%	54.2%	51.4%	50.0%	52.0%	51.6%	55.4%	54.1%	53.6%	56.5%	53.0%	51.0%	Long-term Debt Ratio	45.0%		
	Oblig. \$234.9 mill.	47.7%	45.8%	48.6%	50.0%	48.0%	48.4%	44.6%	45.9%	44.4%	43.4%	47.0%	49.0%	Common Equity Ratio	55.0%		
Pfd Stock None		990.4	1076.2	1355.7	1497.3	1690.4	1904.4	2191.4	2306.6	2495.5	2706.2	2640	2685	Total Capital (\$mill)	2875		
Common Stock 138,568,084 shares as of 10/24/11		1368.1	1490.8	1824.3	2069.8	2280.0	2506.0	2792.8	2997.4	3227.3	3469.3	3625	3785	Net Plant (\$mill)	4295		
MARKET CAP: \$2.9 billion (Mid Cap)		7.8%	7.6%	6.4%	6.7%	6.9%	6.4%	5.9%	5.7%	5.6%	5.9%	7.0%	7.0%	Return on Total Cap'l	8.0%		
		12.3%	12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	11.5%	11.5%	Return on Shr. Equity	12.5%		
CURRENT POSITION	2009	2010	9/30/11	12.4%	12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	11.5%	11.5%	Return on Com Equity	12.5%
(\$MILL.)				5.1%	5.2%	4.2%	4.6%	4.9%	3.7%	3.2%	2.8%	2.7%	3.7%	5.0%	4.5%	Retained to Com Eq	5.5%
Cash Assets	21.9	5.9	8.0	59%	59%	59%	57%	56%	63%	67%	70%	72%	65%	59%	60%	All Div'ds to Net Prof	56%
Receivables	78.7	85.9	86.7														

Inventory (AvgCst)	9.5	9.2	11.6
Other	11.5	44.4	229.7
Current Assets	121.6	145.4	336.0
Accts Payable	57.9	45.3	38.0
Debt Due	87.0	28.5	95.4
Other	56.1	149.9	295.3
Current Liab.	201.0	223.7	428.7

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '10: residential, 59.5%; commercial, 14.5%; industrial & other, 26.0%. Officers and directors own 2.0% of the common stock (4/11 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com .
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Fix. Chg. Cov.	346%	290%	379%
ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '08-'10 to '14-'16
Revenues	8.0%	7.5%	5.0%
"Cash Flow"	8.5%	8.0%	7.0%
Earnings	6.5%	4.5%	10.0%
Dividends	7.5%	8.0%	6.0%
Book Value	9.0%	7.0%	5.0%

Aqua America likely ended 2011 with an approximately 15% rise in earnings from the previous year. Consumer demand was most likely the main factor in the top- and bottom-line growth.

Management has decided to increase the quarterly dividend by 6.5%. The

and bottom lines for the ahead year.

The company is looking at various acquisitions. Given the soft economy, management has been on an acquisition spree to spur growth. Thus far, Aqua America has made ten minor acquisitions, and planned to enter 2012 with at least 15 un-

ANNUAL RATES Past 10 Yrs. Past 5 Yrs. Est'd '08-'10 of change (per sh)
 Revenues 8.0% 7.5% 5.0%
 "Cash Flow" 8.5% 8.0% 7.0%
 Earnings 6.5% 4.5% 10.0%
 Dividends 7.5% 8.0% 6.0%
 Book Value 9.0% 7.0% 5.0%

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Aqua America likely ended 2011 with an approximately 15% rise in earnings from the previous year. Consumer demand was most likely the main factor in the top-and-bottom-line growth.

Management has decided to increase the quarterly dividend by 6.5%. The rise will impact payouts from the December 1st dividend onward. The boost is the 21st increase in 20 years, highlighting the strength of Aqua America's cash flows. Given the steady record, we believe that future payout hikes are likely.

Rate cases are going well for Aqua America. Year to date, the company has been rewarded about \$21 million in favorable rulings (from Indiana, Ohio, North Carolina and Pennsylvania). There are cases ongoing in Florida, Texas, and Illinois, and we anticipate more favorable outcomes. Finally, Aqua America has additionally filed for over \$50 million of rates and surcharges in Pennsylvania, Virginia, New Jersey, Texas, and Ohio, with returns anticipated in mid-to-late 2012. This, combined with the above mentioned ongoing rate cases (set to conclude in 2012 as well) should result in a healthy boost to the top and bottom lines for the ahead year.

The company is looking at various acquisitions. Given the soft economy, management has been on an acquisition spree to spur growth. Thus far, Aqua America has made ten minor acquisitions, and planned to enter 2012 with at least 15 under its belt. Though few details are known, it is also quite likely that the company will continue this trend through 2012 to boost revenues and earnings.

Diversification is the long-term goal. Management is especially interested in the rapid development of deep horizontal drilling (particularly in regards to the Marcellus Shale) and the prospects it represents (water is a key component of the process). Finally, the company is working on pipeline projects, to replace the trucks used for every well that is pumped. It has already started building relationships with several major suppliers. These upcoming ventures augur well for the company over the 2014-2016 pull.

Income investors should favor this equity, with its above-industry average dividend yield.

Sahana Zutshi January 20, 2012

ATTACHMENT B

Stocks in *Value Line's* Natural Gas Utility Industry did not, for the most part, participate in the recent stock market rally (fueled partially by upbeat consumer confidence data). But that's not surprising, since these equities are typically viewed as income vehicles. That quality can provide some much-needed stability during periods of market turbulence, as was the case during the last year.

The Economic Situation

During the final quarter of 2011, U.S. GDP growth was a not-too-spectacular 3%, aided by a rebuilding of inventories, increased commercial construction, plus decreased imports. Nevertheless, the economy is not out of the woods yet, given ongoing softness in the housing sector and the high unemployment rate (hovering around 8% at present). A rise in the price of gasoline does not help matters, either. At this juncture, we believe that GDP growth will stay moderate throughout the remainder of 2012. In this environment, customers have been focusing on energy conservation, which, of course, bodes ill for the revenues of the companies included in the Natural Gas Utility Industry.

A Key Merger

AGL Resources, serving more than 2.3 million customers across several states, including Georgia, Virginia, Tennessee, and Florida, recently completed its acquisition of *Nicor Inc.*, with more than 2.2 million customers in Illinois. Under the terms of the transaction, valued at more than \$2 billion, *AGL* paid \$21.20 in cash or .8382 of a share of *AGL* stock for each *Nicor* share. This move created the largest natural gas distributor in the United States. Another plus is that the two companies' nonregulated units are somewhat complementary. Finally, decent cost savings are likely down the road.

Nonregulated Activities

A number of the companies here are investing in the nonregulated arena (which includes pipelines and energy marketing & trading) and it appears that trend will continue for years to come. Indeed, these businesses provide opportunities for utilities to broaden their income streams. The fact that nonregulated segments can provide upside to share net is noteworthy, given that the return on equity is set by the regulatory state commis-

INDUSTRY TIMELINESS: 61 (of 98)

sions (usually in the 10%-12% range) on the regulated divisions. It should also be mentioned that results for companies with bigger nonregulated units could be more volatile than companies with a greater emphasis on the more stable utility segment.

Weather

Weather is a factor that affects the demand for natural gas, especially from small commercial businesses and consumers. Not surprisingly, earnings for utilities are susceptible to seasonal temperature patterns, with consumption normally at its peak during the winter heating months. Unseasonably warm or cold weather can cause substantial volatility in quarterly operating results. But some companies strive to counteract this exposure through temperature-adjusted rate mechanisms, which are available in many states. Therefore, investors interested in utilities with more-stable profits from year to year are advised to look for companies that hedge this risk.

Dividends

The main appeal of utility equities is their generous levels of dividend income. At the time of this writing, the average yield for the 11 companies in our group was about 3.6%, considerably higher than the *Value Line* median of 2.2%. Standouts include *AGL Resources*, *Ni-Source Inc.*, *Laclede Group*, and *Atmos Energy*. When the financial markets are turbulent, healthy dividend yields tend to act as an anchor, so to speak, in this category.

Conclusion

The Natural Gas Utility group is presently ranked in the bottom half of all industries tracked by *Value Line*, in terms of Timeliness. Nevertheless, these shares are most suitable for income-oriented investors with a conservative bent (given that a number of these issues are ranked favorably for Safety and earn high marks for Price Stability). All told, our readers are advised to consider the individual reports before making a commitment.

Frederick L. Harris, III

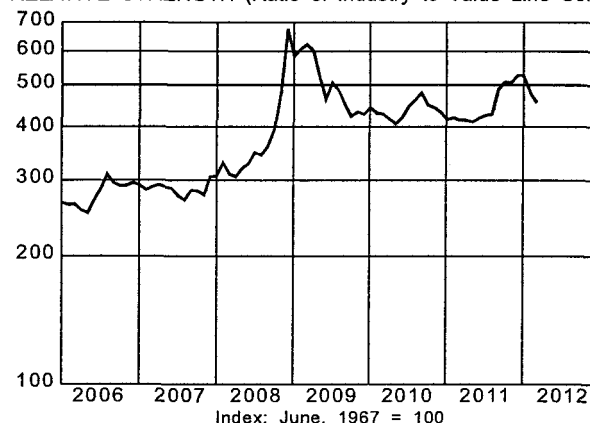
Composite Statistics: Natural Gas Utility

2008	2009	2010	2011	2012	2013		15-17
44207	34909	34089	36250	42500	48000	Revenues (\$mill)	63000
1694.2	1677.6	1769.4	2215	2375	2500	Net Profit (\$mill)	3300
35.7%	33.8%	34.0%	35.0%	36.0%	36.0%	Income Tax Rate	37.0%
3.8%	4.8%	5.2%	6.1%	5.6%	5.2%	Net Profit Margin	5.2%
50.6%	49.9%	46.7%	52.0%	51.0%	51.0%	Long-Term Debt Ratio	52.0%
49.4%	50.1%	53.3%	48.0%	49.0%	49.0%	Common Equity Ratio	48.0%
32729	33974	33144	33250	35500	37300	Total Capital (\$mill)	48000
35342	37292	39294	40250	42250	44600	Net Plant (\$mill)	55000
6.8%	6.5%	6.9%	8.0%	8.0%	8.0%	Return on Total Cap'l	8.5%
10.5%	10.0%	10.0%	14.0%	13.5%	13.5%	Return on Shr. Equity	14.5%
10.5%	10.0%	10.0%	14.0%	13.5%	13.5%	Return on Com Equity	14.5%
4.3%	3.8%	4.0%	4.0%	4.5%	4.5%	Retained to Com Eq	5.0%
59%	61%	61%	61%	62%	62%	All Div'ds to Net Prof	65%
13.9	12.8	14.0				Avg Ann'l P/E Ratio	15.0
.83	.85	.90				Relative P/E Ratio	1.00
4.2%	4.8%	4.3%				Avg Ann'l Div'd Yield	4.5%
358%	381%	402%	400%	390%	395%	Fixed Charge Coverage	405%

Bold figures are
Value Line
estimates

Natural Gas Utility

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



RECENT PRICE	39.70	P/E RATIO	14.5 (Trailing: 15.0 Median: 13.0)	RELATIVE P/E RATIO	0.94	DIV'D YLD	4.6%	VALUE LINE
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1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC	15-17
21.91	22.75	23.36	18.71	11.25	19.04	15.32	15.25	23.89	34.98	33.73	32.64	36.41	29.88	30.42	20.00	22.90	23.10	Revenues per sh ^A	27.25
2.49	2.42	2.65	2.29	2.86	3.31	3.39	3.47	3.29	4.20	4.50	4.65	4.68	4.90	5.05	3.05	4.85	5.10	"Cash Flow" per sh	5.85
1.37	1.37	1.41	.91	1.29	1.50	1.82	2.08	2.28	2.48	2.72	2.72	2.71	2.88	3.00	2.12	3.25	3.45	Earnings per sh ^{A B}	4.10
1.06	1.08	1.08	1.08	1.08	1.08	1.08	1.11	1.15	1.30	1.48	1.64	1.68	1.72	1.76	1.90	1.84	1.88	Div'd per sh ^C	2.00
2.37	2.59	2.05	2.51	2.92	2.83	3.30	2.46	3.44	3.44	3.26	3.39	4.84	6.14	6.54	3.42	3.90	4.10	Cap'l Spending per sh	4.95
10.56	10.99	11.42	11.59	11.50	12.19	12.52	14.66	18.06	19.29	20.71	21.74	21.48	22.95	23.24	28.54	29.65	31.00	Book Value per sh ^D	34.25
55.70	56.60	57.30	57.10	54.00	55.10	56.70	64.50	76.70	77.70	77.70	76.40	76.90	77.54	78.00	117.00	118.00	119.00	Common Shs Outst'g ^E	121.00
13.8	14.7	13.9	21.4	13.6	14.6	12.5	12.5	13.1	14.3	13.5	14.7	12.3	11.2	12.5	12.6	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	15.0
.86	.85	.72	1.22	.88	.75	.68	.71	.69	.76	.73	.78	.74	.75	.80	.82			Relative P/E Ratio	1.00
5.6%	5.4%	5.5%	5.5%	6.2%	4.9%	4.7%	4.3%	3.9%	3.7%	4.0%	4.1%	5.0%	5.4%	4.7%	4.8%			Avg Ann'l Div'd Yield	3.5%

(\$MILL.)				BUSINESS: AGL Resources Inc. is a public utility holding company. Its distribution subsidiaries include Atlanta Gas Light, Chattanooga Gas, Elizabethtown Gas, and Virginia Natural Gas. The utilities have more than 2.3 million customers in Georgia, Virginia, Tennessee, New Jersey, Florida, and Maryland. Engaged in non-regulated natural gas marketing and other allied services. Deregulated subsidiaries: Georgia Natural Gas markets natural gas at retail. Sold Utilipro, 3/01. Acquired Compass Energy Services, 10/07. BlackRock Inc. owns 7.9% of common stock; off./dir., less than 1.0% (3/11 Proxy). Pres. & CEO: John W. Somerhalder II. Inc.: GA. Addr.: Ten Peachtree Place N.E., Atlanta, GA 30309. Telephone: 404-584-4000. Internet: www.aglresources.com .	
Cash Assets	26.0	24.0	69.0	AGL Resources completed its merger with Nicor Inc., on December 9, 2011, making it the largest natural gas-only distribution company in the country. In accordance with the agreement, each share of Nicor stock was converted into a .8383 share of AGL Resources common stock (or	
Other	1974.0	2138.0	2677.0		
Current Assets	2000.0	2162.0	2746.0		
Accts Payable	237.0	184.0	294.0		
Debt Due	602.0	1032.0	1338.0		
Other	933.0	1212.0	1452.0	<div>dividend of \$0.36, from December 9, to February 17. Previously, shareholders received a pro rata dividend of \$0.0989 for the stub period. The dividend hike is keeping with the long-term underlying trend, and we do see this continuing.</div> <div>The long term looks steady at this</div>	
Current Liab.	1772.0	2428.0	3084.0		
Fix. Chg. Cov.	515%	501%	325%		
ANNUAL RATES	Past	Past	Est'd '08-'10		
of change (per sh)	10 Yrs.	5 Yrs.	'10-'15'		
Revenues	6.0%	5.5%	-2.5%		
"Cash Flow"	6.5%	6.0%	2.5%		
Earnings	9.0%	4.5%	5.5%		
Dividends	5.0%	7.5%	2.0%		
Book Value	7.0%	5.5%	6.0%		

Calendar	QUARTERLY REVENUES (\$ mill.) ^A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	995.0	377.0	307.0	638.0	2317.0
2010	1003	359.0	346.0	665.0	2373.0
2011	878.0	375.0	295.0	790.0	2338.0
2012	1200	390	400	710	2700
2013	1250	410	420	670	2750

Calendar	EARNINGS PER SHARE ^{A,B}				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	1.55	.26	.16	.91	2.88
2010	1.73	.17	.29	.81	3.00
2011	1.59	.23	d.04	.34	2.12
2012	1.65	.35	.40	.85	3.25
2013	1.70	.40	.50	.85	3.45

Calendar	QUARTERLY DIVIDENDS PAID ^C				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2008	.42	.42	.42	.42	1.68
2009	.43	.43	.43	.43	1.72
2010	.44	.44	.44	.44	1.76
2011	.45	.45	.45	.55	1.90
2012	.36	.46			

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	70
Earnings Predictability	95

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ATMOS ENERGY CORP. NYSE:ATO

RECENT PRICE **30.89** P/E RATIO **13.4** (Trailing: 15.0 Median: 14.0) RELATIVE P/E RATIO **0.87** DIV YLD **4.5%** VALUE LINE

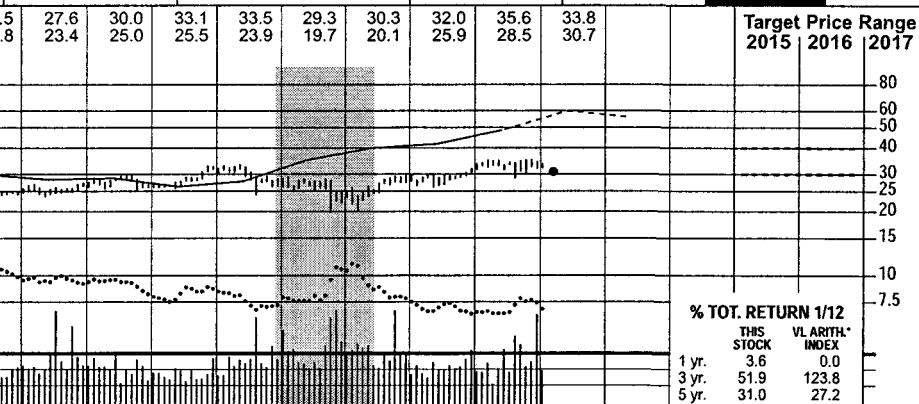
TIMELINESS 4 Lowered 2/17/12
SAFETY 2 Raised 12/16/05
TECHNICAL 3 Lowered 2/24/12
BETA .70 (1.00 = Market)

2015-17 PROJECTIONS
 Price High 40 Low 30
 Gain Ann'l Total
 (+30%) 10%
 (-5%) 4%

Insider Decisions
 to Buy 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0
 Options 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0
 to Sell 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0

Institutional Decisions
 2Q2011 3Q2011 4Q2011
 to Buy 112 110 132
 to Sell 105 116 103
 Hld's(000) 50093 50338 48646

Percent shares traded 12 8 4



Atmos Energy's history dates back to 1906 in the Texas Panhandle. Over the years, through various mergers, it became part of Pioneer Corporation, and, in 1981, Pioneer named its gas distribution division Energas. In 1983, Pioneer organized Energas as a separate subsidiary and distributed the outstanding shares of Energas to Pioneer shareholders. Energas changed its name to Atmos in 1988. Atmos acquired Trans Louisiana Gas in 1986, Western Kentucky Gas Utility in 1987, Greeley Gas in 1993, United Cities Gas in 1997, and others.

CAPITAL STRUCTURE as of 12/31/11
 Total Debt \$2596.3 mill. Due in 5 Yrs \$960.0 mill.
 LT Debt \$2206.2 mill. LT Interest \$120.0 mill.
 (LT interest earned: 3.1x; total interest coverage: 3.1x)
 Leases, Uncapitalized Annual rentals \$17.7 mill.
 Pfd Stock None
 Pension Assets-9/11 \$280.2 mill.
 Oblig. \$429.4 mill.
 Common Stock 90,364,061 shs.
 as of 11/14/11
MARKET CAP: \$2.8 billion (Mid Cap)

CURRENT POSITION (\$MILL.)	2010	2011	12/31/11
Cash Assets	132.0	131.4	85.2
Other	743.2	879.6	1176.0
Current Assets	875.2	1011.0	1261.2
Accts Payable	266.2	291.2	432.3
Debt Due	486.2	208.8	390.1
Other	413.7	367.6	357.4
Current Liab.	1166.1	867.6	1179.8
Fix. Chg. Cov.	440%	432%	435%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11
Revenues	6.5%	-3.5%	3.5%
"Cash Flow"	4.5%	4.5%	3.5%
Earnings	7.0%	4.0%	4.0%
Dividends	1.5%	1.5%	1.5%
Book Value	6.5%	4.5%	6.0%

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2009	1716.3	1821.4	780.8	650.6	4969.1
2010	1292.9	1940.3	770.2	786.3	4789.7
2011	1133.3	1581.5	843.6	789.2	4347.6
2012	1101.2	1610	870	793.8	4375
2013	1205	1700	850	805	4560

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2009	.83	1.29	.02	d.17	1.97
2010	1.00	1.17	d.03	.02	2.16
2011	.81	1.40	.04	.01	2.26
2012	.72	1.47	.09	.02	2.30
2013	.87	1.43	.07	.03	2.40

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	.325	.325	.325	.33	1.31
2009	.33	.33	.33	.335	1.33
2010	.335	.335	.335	.34	1.35
2011	.34	.34	.34	.345	1.37
2012	.345				

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC 15-17
Revenues per sh ^A	22.82	54.39	46.50	61.75	75.27	66.03	79.52	53.69	53.12	48.15	48.35	50.10	63.10
"Cash Flow" per sh	3.39	3.23	2.91	3.90	4.26	4.14	4.19	4.29	4.64	4.72	4.95	5.15	5.65
Earnings per sh ^{A B}	1.45	1.71	1.58	1.72	2.00	1.94	2.00	1.97	2.16	2.26	2.30	2.40	2.70
Div'ds Decl'd per sh ^C	1.18	1.20	1.22	1.24	1.26	1.28	1.30	1.32	1.34	1.36	1.38	1.40	1.48
Cap'l Spending per sh	3.17	3.10	3.03	4.14	5.20	4.39	5.20	5.51	6.02	6.90	7.60	7.90	8.80
Book Value per sh	13.75	16.66	18.05	19.90	20.16	22.01	22.60	23.52	24.16	24.98	27.55	29.95	34.65
Common Shs Outst'g ^D	41.68	51.48	62.80	80.54	81.74	89.33	90.81	92.55	90.16	90.30	90.50	91.00	103.00
Avg Ann'l P/E Ratio	15.2	13.4	15.9	16.1	13.5	15.9	13.6	12.5	13.2	14.4	14.3	14.5	13.0
Relative P/E Ratio	.83	.76	.84	.86	.73	.84	.82	.83	.84	.90	.90	.90	.85
Avg Ann'l Div'd Yield	5.4%	5.2%	4.9%	4.5%	4.7%	4.2%	4.8%	5.3%	4.7%	4.2%	4.2%	4.2%	4.2%
Revenues (\$mill) ^A	950.8	2799.9	2920.0	4973.3	6152.4	5898.4	7221.3	4969.1	4789.7	4347.6	4375	4560	6500
Net Profit (\$mill)	59.7	79.5	86.2	135.8	162.3	170.5	180.3	179.7	201.2	199.3	210	220	280
Income Tax Rate	37.1%	37.1%	37.4%	37.7%	37.6%	35.8%	38.4%	34.4%	38.5%	36.4%	38.5%	38.5%	38.5%
Net Profit Margin	6.3%	2.8%	3.0%	2.7%	2.6%	2.9%	2.5%	3.6%	4.2%	4.6%	4.8%	4.8%	4.3%
Long-Term Debt Ratio	53.9%	50.2%	43.2%	57.7%	57.0%	52.0%	50.8%	49.9%	45.4%	49.4%	49.5%	49.5%	49.0%
Common Equity Ratio	46.1%	49.8%	56.8%	42.3%	43.0%	48.0%	49.2%	50.1%	54.6%	50.6%	50.5%	50.5%	51.0%
Total Capital (\$mill)	1243.7	1721.4	1994.8	3785.5	3828.5	4092.1	4172.3	4346.2	3987.9	4461.5	4940	5400	7000
Net Plant (\$mill)	1300.3	1516.0	1722.5	3374.4	3629.2	3836.8	4136.9	4439.1	4793.1	5147.9	5400	5700	6700
Return on Total Cap'l	6.8%	6.2%	5.8%	5.3%	6.1%	5.9%	5.9%	5.9%	6.9%	6.1%	6.0%	5.5%	5.5%
Return on Shr. Equity	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.3%	9.2%	8.8%	8.5%	8.0%	8.0%
Return on Com Equity	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.3%	9.2%	8.8%	8.5%	8.0%	8.0%
Retained to Com Eq	1.9%	2.8%	1.7%	2.3%	3.6%	3.0%	3.1%	2.7%	3.5%	3.3%	3.5%	3.5%	3.5%
All Div'ds to Net Prof	82%	70%	77%	73%	63%	65%	65%	68%	62%	62%	59%	58%	54%

BUSINESS: Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to over three million customers via six regulated natural gas utility operations: Louisiana Division, West Texas Division, Mid-Texas Division, Mississippi Division, Colorado-Kansas Division, and Kentucky/Mid-States Division. Combined 2011 gas volumes: 281.5 MMcf. Breakdown: 57%, residen-

Atmos Energy Corporation began fiscal 2012 (ends September 30th) on a sour note, compared to the first quarter of the previous year. The performance of the nonregulated segment was hurt by unfavorable pricing conditions in the natural gas market. To make matters worse, the natural gas distribution unit encountered a rise in operating expenses (including those pertaining to legal and depreciation & amortization).

But we expect better things for the Texas-based company as the year progresses. That should be attributable partially to ratemaking activity for the natural gas distribution segment. Moreover, the regulated transmission and storage unit should continue to shine, made possible by higher throughput. The nonregulated operation may lag a while longer, though.

All told, share net might well advance by several pennies, to \$2.30, for the new fiscal year. Assuming additional expansion of operating margins, the bottom line stands to reach \$2.40 a share in fiscal 2013.

Prospects over the 2015-2017 span do

not appear exciting. The utility segment ranks as one of the nation's largest natural gas-only distributors. And we believe that the unregulated units have decent overall growth possibilities, present troubles aside. Too, the company will probably resume its successful strategy of purchasing less efficient utilities and shoring up their profitability through expense-reduction initiatives, rate relief, and aggressive marketing efforts. But given our exclusion of future acquisitions, annual share-net increases could only be in the mid-single-digit range over the next three to five years.

The main attraction here is the dividend yield, which is among the highest of all gas utility equities tracked by *Value Line*. Our long-term projections indicate that further (albeit, modest) increases in the well-covered distribution are likely. Other pluses for the stock include a 2 (Above Average) Safety rank and an excellent rating for Price Stability.

Meanwhile, Atmos Energy shares are a Below Average (4) selection for Timeliness.

Frederick L. Harris, III March 9, 2012

RECENT PRICE	41.25	P/E RATIO	15.3 (Trailing: 14.1 Median: 14.0)	RELATIVE P/E RATIO	0.99	DIV'D YLD	4.0%	VALUE LINE
--------------	-------	-----------	---------------------------------------	--------------------	------	-----------	------	------------

(A) Fiscal year ends Sept. 30th.	ations: '08, 94¢. Next earnings report due late April. (C) Dividends historically paid in early January, April, July, and October. • Dividend reinvestment plan available. (D) Incl. deferred	charges. In '11: \$429.9 mill., \$19.17/sh. (E) In millions. (F) Qtlly. egs. may not sum due to rounding or change in shares outstanding.	Company's Financial Strength B++ Stock's Price Stability 100 Price Growth Persistence 50 Earnings Predictability 80
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NEW JERSEY RES. NYSE-NJR					RECENT PRICE	46.91	P/E RATIO	16.5 (Trailing: 15.8 Median: 15.0)	RELATIVE P/E RATIO	1.07	DIV'D YLD	3.2%	VALUE LINE							
TIMELINESS 3 Raised 2/17/12					High: 21.7	22.4	26.4	29.7	32.9	35.4	37.6	41.1	42.4	44.1	50.5	50.3	Target Price Range			
SAFETY 1 Raised 9/15/06					Low: 16.6	16.2	20.0	24.3	27.1	27.7	30.3	24.6	30.0	33.5	39.6	46.6	2015	2016	2017	
TECHNICAL 4 Lowered 3/9/12					LEGENDS															
BETA .65 (1.00 = Market)					1.40 x Dividends p sh divided by Interest Rate															
2015-17 PROJECTIONS					3-for-2 split 3/02															
					3-for-2 split 3/08															
					Options: Yes															
					Shaded areas indicate recessions															
Price Gain Ann'l Total																				
High 55 (+15%) 7%																				
Low 45 (-5%) 3%																				
Insider Decisions																				
A M J J A S O N D																				
to Buy 0																				
Options 0 0 0 0 1 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0																				
to Sell 0 0 0 0 2 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0																				
Institutional Decisions																				
2Q2011 3Q2011 4Q2011																				
to Buy 58 69 66																				
to Sell 67 58 65																				
Hld's(000) 23841 23955 24285																				
Percent shares traded																				
12 8 4																				
1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013																				
13.48 17.31 17.73 22.65 29.42 51.22 44.11 62.29 60.89 76.19 79.63 72.62 90.74 62.34 64.10 72.60 77.50 80.00																				
1.48 1.63 1.74 1.86 1.99 2.12 2.14 2.38 2.50 2.62 2.73 2.44 3.62 3.16 3.26 3.40 3.85 4.10																				
.92 .99 1.04 1.11 1.20 1.30 1.39 1.59 1.70 1.77 1.87 1.55 2.70 2.40 2.46 2.58 2.85 3.15																				
.69 .71 .73 .75 .76 .78 .80 .83 .87 .91 .96 1.01 1.11 1.24 1.36 1.44 1.52 1.52																				
1.19 1.15 1.07 1.21 1.23 1.10 1.02 1.14 1.45 1.28 1.46 1.72 1.81 2.10 2.26 2.00 2.00 2.00																				
6.73 6.92 7.26 7.57 8.29 8.80 8.71 10.26 11.25 10.60 15.00 15.50 17.28 16.59 17.62 18.73 18.30 19.30																				
40.69 40.23 40.07 39.92 39.59 40.00 41.50 40.85 41.61 41.32 41.44 41.61 42.06 41.59 41.17 41.45 40.00 40.00																				
13.6 13.5 15.3 15.2 14.7 14.2 14.7 14.0 15.3 16.8 16.1 21.6 12.3 14.9 15.0 16.8 16.8 16.8																				
.85 .78 .80 .87 .96 .73 .80 .80 .81 .89 .87 1.15 .74 .99 .95 1.05 1.05																				
5.6% 5.3% 4.6% 4.5% 4.4% 4.2% 3.9% 3.7% 3.3% 3.1% 3.2% 3.0% 3.3% 3.5% 3.7% 3.3% 3.3% 3.3%																				
CAPITAL STRUCTURE as of 12/31/11																				
Total Debt \$756.3 mill. Due in 5 Yrs \$129.1 mill.																				
LT Debt \$431.6 mill. LT Interest \$19.6 mill.																				
Incl. \$69.9 mill. capitalized leases.																				
(LT interest earned: 7.5x; total interest coverage: 7.5x)																				
Pension Assets-9/11 \$155.7 mill.																				
Oblig. \$270.2 mill.																				
Pfd Stock None																				
Common Stock 41,476,807 shs.																				
as of 2/3/12																				
MARKET CAP: \$1.9 billion (Mid Cap)																				
CURRENT POSITION (MILL.)																				
2010 2011 12/31/11																				
Cash Assets .9 7.4 7.8																				
Other 784.1 725.0 863.0																				
Current Assets 785.0 732.4 870.8																				
Accts Payable 47.3 66.0 70.9																				
Debt Due 178.9 166.9 324.8																				
Other 479.6 470.5 445.8																				
Current Liab. 705.8 703.4 841.5																				
Fix. Chg. Cov. 700% 700% 700%																				
ANNUAL RATES																				
Past 10 Yrs. Past 5 Yrs. Est'd '09-'11																				
of change (per sh)																				
Revenues 7.0% -1.5% 4.5%																				
"Cash Flow" 5.0% 4.5% 5.5%																				
Earnings 7.5% 7.0% 5.5%																				
Dividends 6.0% 8.0% 4.0%																				
Book Value 8.0% 7.5% 5.5%																				
Fiscal Year																				
ENDS																				
QUARTERLY REVENUES (\$ mill.) A																				
Dec.31 Mar.31 Jun.30 Sep.30																				
2009 801.3 937.5 441.1 412.6 2592.5																				
2010 609.6 918.4 479.8 631.5 2639.3																				
2011 713.2 977.0 648.1 670.9 3009.2																				
2012 642.4 1030 700 727.6 3100																				
2013 685 1050 720 745 3200																				
Fiscal Year																				
ENDS																				
EARNINGS PER SHARE AB																				
Dec.31 Mar.31 Jun.30 Sep.30																				
2009 .77 1.71 .03 d.12 2.40																				
2010 .66 1.55 .28 d.03 2.46																				
2011 .71 1.62 .23 .02 2.58																				
2012 1.09 1.60 .20 d.04 2.85																				
2013 1.15 1.67 .28 .05 3.15																				
Cal-endar																				
QUARTERLY DIVIDENDS PAID C E																				
Mar.31 Jun.30 Sep.30 Dec.31																				
2008 .267 .28 .28 .28 1.11																				
2009 .31 .31 .31 .31 1.24																				
2010 .34 .34 .34 .34 1.36																				
2011 .36 .36 .36 .36 1.44																				
2012 .38																				
BUSINESS: New Jersey Resources Corp. is a holding company providing retail/wholesale energy svcs. to customers in New Jersey, and in states from the Gulf Coast to New England, and Canada. New Jersey Natural Gas had about 494,964 customers at 9/30/11 in Monmouth and Ocean Counties, and other N.J. Counties. Fiscal 2011 volume: 178 bill. cu. ft. (5% interruptible, 35% residential and commercial and electric utility, 60% incentive programs). N.J. Natural Energy subsidiary provides unregulated retail/wholesale natural gas and related energy svcs. 2011 dep. rate: 2.2%. Has 891 emp. Off/dir. own about 1.1% of common (12/11 Proxy). Chrmn., CEO & Pres.: Laurence M. Downes, Inc.: NJ Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 732-938-1480. Web: www.njresources.com.																				
New Jersey Resources is off to a great start in fiscal 2012. The December-period top line declined about 9.9%. However, this downturn stemmed from lower natural gas prices, which get passed through to the end-consumer. Meanwhile, thanks to projects placed into service at NJR Clean Energy Ventures, continued growth at New Jersey Natural Gas (NJNG), and improved results at NJR Energy Services, first-quarter earnings increased 53.5%, to \$1.09 a share.																				
The company appears poised to log a double-digit earnings advance this year. The NJNG division added 2,001 new customers during the December period. At this point, management plans to add about 6,000-7,000 additional accounts for the full 12 months. Some of that figure will come from steady customer growth, while the remainder will come from customer conversions. At the same time, New Jersey Resources should benefit from its Clean Energy Ventures, which is anticipated to represent 15%-25% of its overall operations this year. Its Energy Services, Energy Holdings (midstream operations), and Home Services units should also chip in.																				
We have introduced our 2013 top- and bottom-line estimates at \$3.2 billion and \$3.15 a share, respectively. This ought to be supported by continued growth in customer accounts and capital projects. Management has set a healthy growth target of 12,000-14,000 new customer accounts through the end of 2013.																				
Multiple capital projects solidify the company's prospects. Last year, NJR completed its Accelerated Infrastructure Program I (AIP I). The second phase of that program, AIP II, has nine separate projects that are in the design or construction phase. All of those are expected to be completed by October of 2012, at a cost of about \$60 million. These investments will help to boost the reliability of the company's distribution system.																				
These shares may appeal to investors seeking dividend growth. However, when compared with other utilities in The Value Line Investment Survey, they offer a below-average dividend yield. Meanwhile, our Timeliness Ranking System suggests the equity will mirror the broader market averages in the coming year.																				
Bryan J. Fong																				
March 9, 2012																				

<p>(A) Fiscal year ends October 31st.</p> <p>(B) Diluted earnings. Excl. extraordinary item: '00, 8¢. Excl. nonrecurring gains (losses): '97, (2¢); '10, 41¢. Next earnings report due mid</p>		<p>Mar. Quarters may not add to total due to change in shares outstanding.</p> <p>(C) Dividends historically paid mid-January, April, July, October.</p>	<p>■ Div'd reinvest. plan available; 5% discount.</p> <p>(D) Includes deferred charges. In 2011: \$527.6 million, \$7.29/share.</p> <p>(E) In millions, adjusted for stock split.</p>	<p>Company's Financial Strength B++</p> <p>Stock's Price Stability 100</p> <p>Price Performance Persistence 55</p> <p>Earnings Predictability 95</p>
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SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE **52.69**

P/E RATIO **17.0** (Trailing: 18.2; Median: 15.0)

RELATIVE P/E RATIO **1.10**

DIV'D YLD **3.1%**

VALUE LINE

TIMELINESS 3 Raised 3/9/12
SAFETY 2 Lowered 1/4/91
TECHNICAL 3 Lowered 9/2/11
BETA .65 (1.00 = Market)

High: 17.0 18.3 20.3 26.5 32.4 34.3 41.3 40.6 40.8 54.2 58.0 58.0
 Low: 13.8 14.1 15.3 19.7 24.9 25.6 31.2 25.2 32.0 37.2 42.8 52.4

LEGENDS
 1.20 x Dividends p sh
 divided by Interest Rate
 Relative Price Strength
 2-for-1 split 7/05
 Options: Yes
 Shaded areas indicate recessions

2015-17 PROJECTIONS

	Price	Gain	Ann'l Total
High	70	(+35%)	10%
Low	55	(+5%)	5%

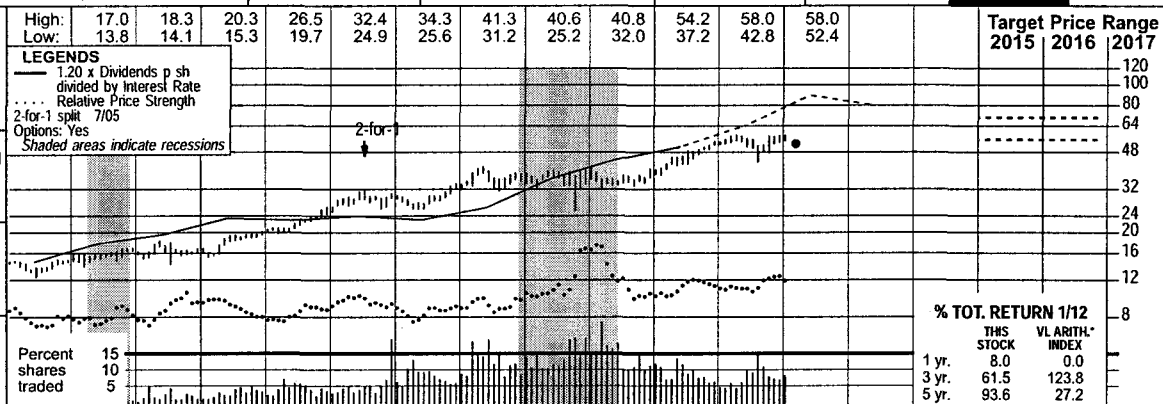
Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	2	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	3	1	0	0	0	0	0

Institutional Decisions

	2Q2011	3Q2011	4Q2011
to Buy	64	68	59
to Sell	73	66	60
Hld's (000)	17547	17887	17847

Percent shares traded: 15
5



1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC	15-17
16.52	16.18	20.89	17.60	22.43	35.30	20.69	26.34	29.51	31.78	31.76	32.30	32.36	28.37	30.97	27.43	30.30	32.05	Revenues per sh	38.55
1.54	1.60	1.44	1.84	1.95	1.90	2.12	2.24	2.44	2.51	3.51	3.20	3.48	3.72	4.21	4.54	4.85	5.05	"Cash Flow" per sh	6.20
.85	.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.71	2.46	2.09	2.27	2.38	2.70	2.89	3.20	3.50	Earnings per sh ^A	4.50
.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	.92	1.01	1.11	1.22	1.36	1.50	1.64	1.80	Div'ds Decl'd per sh ^B	2.25
2.01	2.30	3.06	2.19	2.21	2.82	3.47	2.36	2.67	3.21	2.51	1.88	2.08	3.67	5.59	6.39	6.45	6.70	Cap'l Spending per sh	7.45
8.03	6.43	6.23	6.74	7.25	7.81	9.67	11.26	12.41	13.50	15.11	16.25	17.33	18.24	19.08	20.66	21.30	22.20	Book Value per sh ^C	25.70
21.51	21.54	21.56	22.30	23.00	23.72	24.41	26.46	27.76	28.98	29.33	29.61	29.73	29.80	29.87	30.21	31.00	32.00	Common Shs Outst'g ^D	35.00
13.3	13.8	21.2	13.3	13.0	13.6	13.5	13.3	14.1	16.6	11.9	17.2	15.9	15.0	16.8	18.5	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	14.0
.83	.80	1.10	.76	.85	.70	.74	.76	.74	.88	.64	.91	.96	1.00	1.07	1.16			Relative P/E Ratio	.95
6.4%	6.1%	5.3%	5.4%	5.2%	4.7%	4.6%	4.3%	3.7%	3.0%	3.2%	2.8%	3.1%	3.4%	3.0%	2.8%			Avg Ann'l Div'd Yield	3.6%

CAPITAL STRUCTURE as of 12/31/11
 Total Debt \$747.8 mill. Due in 5 Yrs \$417.2 mill.
 LT Debt \$424.2 mill. LT Interest \$18.0 mill.
 (Total interest coverage: 5.7x)

Pension Assets-12/11 \$116.7 mill.
 Oblig. \$195.0 mill.

Pfd Stock None

Common Stock 30,249,818 common shs.
 as of 2/15/12

MARKET CAP: \$1.6 billion (Mid Cap)

CURRENT POSITION (\$MILL.)	2009	2010	12/31/11
Cash Assets	3.8	2.4	7.5
Other	364.6	421.4	333.1
Current Assets	368.4	423.8	340.6
Accts Payable	123.9	165.2	153.7
Debt Due	231.7	362.1	323.6
Other	123.2	113.2	110.7
Current Liab.	478.8	640.5	588.0
Fix. Chg. Cov.	585%	532%	505%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11	'11-'17
Revenues	4.0%	1.0%	5.0%	5.0%
"Cash Flow"	8.0%	9.5%	7.0%	7.0%
Earnings	10.5%	9.5%	9.0%	9.0%
Dividends	5.5%	8.5%	9.0%	9.0%
Book Value	10.5%	8.0%	5.0%	5.0%

Cal-endar	QUARTERLY REVENUES (\$ mill.)	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	Year
2009	362.2 134.5 127.1 221.6	845.4
2010	329.3 151.6 160.7 283.5	925.1
2011	331.9 160.5 137.6 198.6	828.6
2012	345 170 160 265	940
2013	360 180 175 310	1025

Cal-endar	EARNINGS PER SHARE A	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	Year
2009	1.46 .15 .06 .83	2.38
2010	1.49 .24 .10 .87	2.70
2011	1.63 .20 .01 1.05	2.89
2012	1.70 .25 .10 1.15	3.20
2013	1.80 .30 .15 1.25	3.50

Cal-endar	QUARTERLY DIVIDENDS PAID B	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	Year
2008	-- .270 .270 .568	1.11
2009	-- .298 .298 .628	1.22
2010	-- .330 .330 .695	1.36
2011	-- .365 .365 .768	1.50
2012	-- .365 .365 .768	1.50

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 347,725 customers in New Jersey's southern counties, which covers about 2,500 square miles and includes Atlantic City. Gas revenue mix '11: residential, 41%; commercial, 20%; cogeneration and electric generation, 14%; industrial, 25%. Non-utility operations include: South Jersey Energy, South Jersey Resources Group, Marina Energy, and South Jersey Energy Service Plus. Has 675 employees. Off./dir. control 1.0% of common shares; Black Rock Inc., 8.3% (4/11 proxy). Chmn. & CEO: Edward Graham. Inc.: NJ. Address: 1 South Jersey Plaza, Folsom, NJ 08037. Telephone: 609-561-9000. Internet: www.sjindustries.com.

Operating performance at South Jersey Industries has proven somewhat mixed in recent times. The relatively mild winter weather has adversely affected heating demand. However, the company's mainstay utility business should continue to benefit from earnings derived from the Capital Investment Recovery Tracker program. These earnings are based upon the pattern of customer gas consumption, which correlates to heating demand and is strongest in the first and fourth quarters. Overall, modest growth from the utility business is on tap.

The company's nonutility operations may well continue to face challenges. Wholesale gas marketing continues to be hurt by difficult industry conditions. This includes thin storage spreads and a lack of price volatility. The delayed startup of one of the company's solar projects (which was pushed back from the December to the March period) likely hindered performance in 2011, but should provide a boost in the current year.

Utility South Jersey Gas should post solid results going forward. This line will probably continue to experience

steady growth in the customer base. Natural gas remains the fuel of choice within the utility's service territory. It should further benefit from customer interest in converting to natural gas from other fuel sources. Moreover, further spending on infrastructure projects (approved by the New Jersey Board of Public Utilities) should enhance service and allow the company to earn a healthy return on these investments. Performance of the nonutility operations should also improve. The company's pipeline of energy projects, and opportunities in the Marcellus region, ought to provide a solid foundation for future growth.

This stock is neutrally ranked for year-ahead performance. We project solid growth in share earnings and dividends for the company over the pull to 2015-2017. South Jersey earns good marks for Safety, Price Stability, and Earnings Predictability. However, this appears to be partly reflected in the recent quotation. This equity offers unimpressive, though relatively well-defined, total return potential for the coming years.

Michael Napoli, CFA March 9, 2012

(A) Based on GAAP egs. through 2006, economic egs. thereafter. GAAP EPS: '07, \$2.10; '08, \$2.58; '09, \$1.94; '10, \$2.22. Excl. non-recr. gain (loss): '01, \$0.13; '08, \$0.31; '09, \$0.44; '10, \$0.47. Excl gain (losses) from discount ops.: '01, \$0.02; '02, \$0.04; '03, \$0.09; '05, \$0.02; '06, \$0.02; '07, \$0.01. Next egs. report due in May. (B) Div'ds paid early April, July, Oct., and late Dec. (C) Div. reinvest. plan avail. (D) Incl. reg. assets. In 2010: \$248.4 mill., \$8.32 per shr. (E) In mill., adj. for split.	Company's Financial Strength B++ Stock's Price Stability 100 Price Growth Persistence 90 Earnings Predictability 85
--	--

SOUTHWEST GAS NYSE-SWX

RECENT PRICE **42.31**

P/E RATIO **15.4** (Trailing: 17.4 Median: 18.0)

RELATIVE P/E RATIO **1.00**

DIV'D YLD **2.8%**

VALUE LINE

TIMELINESS 2 Raised 3/9/12
SAFETY 3 Lowered 1/4/91
TECHNICAL 3 Raised 5/27/11
BETA .75 (1.00 = Market)

High: 24.7 25.3 23.6 26.2 28.1 39.4 39.9 33.3 29.5 37.3 43.2 43.2
Low: 18.6 18.1 19.3 21.5 23.5 26.0 26.5 21.1 17.1 26.3 32.1 40.5

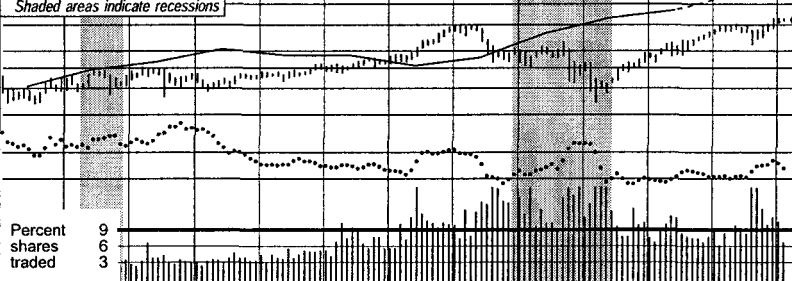
LEGENDS
1.50 x Dividends p sh
divided by Interest Rate
Relative Price Strength
Options: Yes
Shaded areas indicate recessions

Target Price Range
2015 2016 2017

2015-17 PROJECTIONS
Price 70
Low 45
Gain (+65%)
Ann'l Total Return 16%
5%

Insider Decisions
A M J J A S O N D
to Buy 0 0 1 0 1 0 0 2 0
Options 1 2 0 0 0 0 0 1 2
to Sell 2 2 2 0 1 0 0 2 2

Institutional Decisions
202011 3Q2011 4Q2011
to Buy 76 70 56
to Sell 80 76 95
Mid's(000) 33317 33998 34237



% TOT. RETURN 1/12
THIS STOCK VL ARITH' INDEX
1 yr. 15.4 0.0
3 yr. 79.1 123.8
5 yr. 24.4 27.2

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC	15-17
24.09	26.73	30.17	30.24	32.61	42.98	39.68	35.96	40.14	43.59	48.47	50.28	48.53	42.00	40.18	41.07	40.95	40.85	Revenues per sh	51.00
3.00	3.85	4.48	4.45	4.57	4.79	5.07	5.11	5.57	5.20	5.97	6.21	5.76	6.16	6.46	6.81	7.15	7.60	"Cash Flow" per sh	9.40
.25	.77	1.65	1.27	1.21	1.15	1.16	1.13	1.66	1.25	1.98	1.95	1.39	1.94	2.27	2.43	2.65	2.90	Earnings per sh ^A	3.80
.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.86	.90	.95	1.00	1.06	1.18	1.30	Div'ds Decl'd per sh ^{B=†}	1.60
8.19	6.19	6.40	7.41	7.04	8.17	8.50	7.03	8.23	7.49	8.27	7.96	6.79	4.81	4.73	8.29	8.70	8.95	Cap'l Spending per sh	9.40
14.20	14.09	15.67	16.31	16.82	17.27	17.91	18.42	19.18	19.10	21.58	22.98	23.49	24.44	25.62	26.68	27.65	29.15	Book Value per sh	33.35
26.73	27.39	30.41	30.99	31.71	32.49	33.29	34.23	36.79	39.33	41.77	42.81	44.19	45.09	45.56	45.96	47.00	48.00	Common Shs Outst'g ^C	51.00
69.3	24.1	13.2	21.1	16.0	19.0	19.9	19.2	14.3	20.6	15.9	17.3	20.3	12.2	14.0	15.7	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	15.0
4.34	1.39	.69	1.20	1.04	.97	1.09	1.09	.76	1.10	.86	.92	1.22	.81	.89	.98			Relative P/E Ratio	1.00
4.7%	4.4%	3.8%	3.1%	4.2%	3.8%	3.6%	3.8%	3.5%	3.2%	2.6%	2.6%	3.2%	4.0%	3.2%	2.8%			Avg Ann'l Div'd Yield	2.8%

CAPITAL STRUCTURE as of 12/31/11
Total Debt \$1253.5 mill. Due in 5 Yrs \$343.0 mill.
LT Debt \$930.9 mill. LT Interest \$60.0 mill.
(Total interest coverage: 3.5x) (43% of Cap'l)
Leases, Uncapitalized Annual rentals \$6.0 mill.
Pension Assets-12/11 \$551.8 mill.
Oblig. \$832.8 mill.

Pfd Stock None

Common Stock 46,093,472 shs.
as of 2/15/12

MARKET CAP: \$2.0 billion (Mid Cap)

CURRENT POSITION	2009	2010	12/31/11
(\$MILL.)			
Cash Assets	65.3	116.1	21.9
Other	352.3	329.8	439.7
Current Assets	417.6	445.9	461.6
Accts Payable	158.9	165.5	186.8
Debt Due	1.3	75.1	322.6
Other	314.0	356.4	338.2
Current Liab.	474.2	597.0	847.6
Fix. Chg. Cov.	251%	299%	359%

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11
of change (per sh)			
Revenues	3.5%	2.0%	3.5%
"Cash Flow"	3.0%	3.0%	6.5%
Earnings	3.0%	6.5%	9.5%
Dividends	1.5%	3.0%	8.0%
Book Value	4.0%	5.5%	4.5%

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	689.9	387.6	317.5	498.8	1893.8
2010	668.8	385.8	307.7	468.1	1830.4
2011	628.4	388.5	352.6	517.7	1887.2
2012	650	410	365	500	1925
2013	660	420	375	505	1960

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	1.12	d.01	d.18	1.01	1.94
2010	1.42	d.02	d.11	.98	2.27
2011	1.48	.09	d.34	1.19	2.43
2012	1.55	.15	d.15	1.10	2.65
2013	1.65	.20	d.10	1.15	2.90

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	.215	.225	.225	.225	.89
2009	.225	.238	.238	.238	.94
2010	.238	.250	.250	.250	.99
2011	.250	.265	.265	.265	1.05
2012	.265	.295			

BUSINESS: Southwest Gas Corporation is a regulated gas distributor serving approximately 1.9 million customers in sections of Arizona, Nevada, and California. Comprised of two business segments: natural gas operations and construction services. 2011 margin mix: residential and small commercial, 86%; large commercial and industrial, 4%; transportation, 10%. Total throughput: 2.1 billion

Shares of Southwest Gas have traded higher over the past three months. The company finished 2011 on an impressive note, and we look for solid results going forward. Pipeline construction-services subsidiary NPL should continue to experience healthy growth. This business ought to further benefit from the replacement of aging infrastructure. Meanwhile, the utility business should benefit from recent rate relief (discussed below), though it remains to be seen whether this unit's operating environment will continue to improve. Overall, we anticipate higher revenues and share earnings for the current year. Growth may well continue in 2013. That said, our estimates may prove somewhat optimistic, should material economic weakness emerge.

The Arizona Corporation Commission has approved a rate increase for the company, which took effect on January 1st. Southwest was allowed to increase its revenues by \$52.8 million, with a return on equity of 9.5%. The approval also includes a revenue decoupling mechanism to allow Southwest to recover fixed costs regardless of fluctuations in customer

usage, and enables it to promote improvements in energy efficiency. Efforts to procure rate relief will remain important going forward, as Southwest depends on such approved increases to help it cope with rising expenses and to provide compensation for infrastructure investment.

The board of directors has increased the dividend by roughly 11%. Starting with the June payout, the quarterly dividend is now \$0.295 per share. The company has increased the payout every year since 2007, and we expect this pattern will continue going forward.

This stock is favorably ranked for year-ahead performance. Looking further out, we anticipate healthy growth in revenues and share earnings for the company over the pull to 2015-2017. However, appreciation potential for the coming years appears somewhat limited, as the shares are trading near our Target Price Range. Healthy dividend growth notwithstanding, the stock's yield remains below average for a utility. As a result, most investors can probably find more-attractive opportunities elsewhere.

Michael Napoli, CFA March 9, 2012

(A) Based on avg. shares outstand. thru '96, then diluted. Excl. nonrec. gains (losses): '97, 16¢; '02, (10¢); '05, (11¢); '06, 7¢. Next egs. report due early May. (B) Dividends historically paid early March, June, September, December. † Div'd reinvestment and stock purchase plan avail. (C) In millions.

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Company's Financial Strength	B
Stock's Price Stability	95
Price Growth Persistence	65
Earnings Predictability	75

To subscribe call 1-800-833-0046.

WGL HOLDINGS NYSE-WGL

RECENT PRICE **40.68** P/E RATIO **16.3** (Trailing: 17.2 Median: 15.0) RELATIVE P/E RATIO **1.06** DIV'D YLD **3.8%** VALUE LINE

TIMELINESS 3 Raised 9/9/11
SAFETY 1 Raised 4/2/93
TECHNICAL 3 Raised 1/6/12
BETA .65 (1.00 = Market)

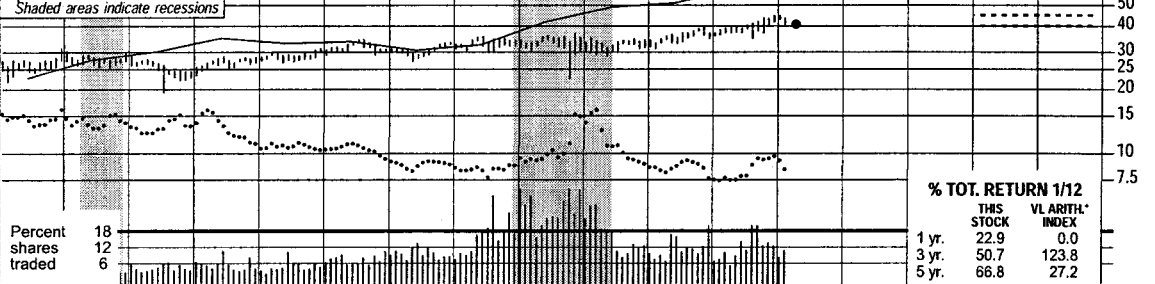
High: 30.5 29.5 28.8 31.4 34.8 33.6 35.9 37.1 35.5 40.0 45.0 45.0
 Low: 25.3 19.3 23.2 26.7 28.8 27.0 29.8 22.4 28.6 31.0 34.7 40.5

LEGENDS
 1.10 x Dividends p sh
 divided by Interest Rate
 Relative Price Strength
 Options: Yes
 Shaded areas indicate recessions

2015-17 PROJECTIONS
 Price Gain Ann'l Total
 High 45 (+10%) 6%
 Low 40 (Nil) 3%

Insider Decisions
 A M J J A S O N D
 to Buy 0 0 0 0 0 0 0 0 0 0
 Options 1 1 0 0 1 0 0 1 0
 to Sell 1 2 0 0 1 0 0 1 0

Institutional Decisions
 2Q2011 3Q2011 4Q2011
 to Buy 86 85 88
 to Sell 72 84 80
 Hld's(000) 29975 31165 31882



1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC	15-17
22.19	24.16	23.74	20.92	22.19	29.80	32.63	42.45	42.93	44.94	53.96	53.51	52.65	53.98	53.60	53.75	54.35	55.05	Revenues per sh ^A	59.90
2.93	3.02	2.79	2.74	3.20	3.24	2.63	4.00	3.87	3.97	3.84	3.89	4.34	4.44	4.11	4.01	4.40	4.45	"Cash Flow" per sh	4.70
1.85	1.85	1.54	1.47	1.79	1.88	1.14	2.30	1.98	2.13	1.94	2.09	2.44	2.53	2.27	2.25	2.50	2.55	Earnings per sh ^B	2.80
1.14	1.17	1.20	1.22	1.24	1.26	1.27	1.28	1.30	1.32	1.35	1.37	1.41	1.47	1.50	1.55	1.59	1.63	Div'ds Decl'd per sh ^C	1.75
2.85	3.20	3.62	3.42	2.67	2.68	3.34	2.65	2.33	3.27	3.33	3.33	2.70	2.77	2.57	3.94	5.85	4.85	Cap'l Spending per sh	4.80
12.79	13.48	13.86	14.72	15.31	16.24	15.78	16.25	16.95	17.80	18.86	19.83	20.99	21.89	22.82	23.49	24.60	25.60	Book Value per sh ^D	28.65
43.70	43.70	43.84	46.47	46.47	48.54	48.56	48.63	48.67	48.65	48.89	49.45	49.92	50.14	50.54	51.20	51.50	51.75	Common Shs Outst'g ^E	52.00
11.5	12.7	17.2	17.3	14.6	14.7	23.1	11.1	14.2	14.7	15.5	15.6	13.7	12.6	15.1	17.0	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	15.0
.72	.73	.89	.99	.95	.75	1.26	.63	.75	.78	.84	.83	.82	.84	.96	1.07			Relative P/E Ratio	1.00
5.4%	5.0%	4.5%	4.8%	4.8%	4.6%	4.8%	5.0%	4.6%	4.2%	4.5%	4.2%	4.2%	4.6%	4.4%	4.1%			Avg Ann'l Div'd Yield	4.2%

CAPITAL STRUCTURE as of 12/31/11
 Total Debt \$862.1 mill. Due in 5 Yrs \$189.2 mill.
 LT Debt \$584.0 mill. LT Interest \$40.0 mill.
 (LT interest earned: 6.2x; total interest coverage: 5.7x)
 Pension Assets-9/11 \$1,289.0 mill.
 Preferred Stock \$28.2 mill. Pfd. Div'd \$1.3 mill.
 Common Stock 51,497,582 shs. as of 1/31/12

MARKET CAP: \$2.1 billion (Mid Cap)

CURRENT POSITION	2010	2011	12/31/11
Cash Assets	8.9	4.3	5.5
Other	708.4	720.4	1012.8
Current Assets	717.3	724.7	1018.3
Accts Payable	225.4	279.4	299.4
Debt Due	130.5	116.5	278.1
Other	188.2	180.8	274.5
Current Liab.	544.1	576.7	852.0
Fix. Chg. Cov.	536%	535%	535%

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11
of change (per sh)			
Revenues	8.5%	2.5%	2.0%
"Cash Flow"	3.0%	1.5%	2.0%
Earnings	3.0%	3.0%	3.0%
Dividends	2.0%	2.5%	2.5%
Book Value	4.0%	5.0%	4.0%

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2009	826.2	1040.9	427.0	412.8	2706.9
2010	727.4	1056.6	459.7	465.2	2708.9
2011	795.9	1017.2	490.3	448.1	2751.5
2012	727.8	1050	525	497.2	2800
2013	740	1060	535	515	2850

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2009	1.03	1.65	.11	d.25	2.53
2010	1.01	1.64	d.07	d.29	2.27
2011	1.02	1.53	d.03	d.26	2.25
2012	1.13	1.59	.01	d.23	2.50
2013	1.15	1.60	Nil	d.20	2.55

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	.34	.36	.36	.36	1.42
2009	.36	.37	.37	.37	1.47
2010	.37	.378	.378	.378	1.50
2011	.378	.39	.39	.39	1.55
2012	.39				

BUSINESS: WGL Holdings, Inc. is the parent of Washington Gas Light, a natural gas distributor in Washington, D.C. and adjacent areas of VA and MD to residential and comm'l users (1,082,983 meters). Hampshire Gas, a federally regulated sub., operates an underground gas-storage facility in WV. Non-regulated subs.: Wash. Gas Energy Svcs. sells and delivers natural gas and pro-

WGL Holdings logged a mixed bag of financial results for its December interim. Indeed, the top line declined approximately 9% on a year-over-year basis, to \$727.8 million. However, we view this largely as a technicality stemming from the decrease in natural gas prices over that time frame. Alternatively, the Regulated Utility unit added 9,300 active customer meters. On the margin front, the utility cost of gas declined 8.27% as a function of revenues. This was partially offset by a 7.3% rise in the non-utility cost of energy-related sales. Elsewhere, the Retail Energy-Marketing segment saw the total number of electric accounts grow by 33,800, to 194,400. Finally, the Commercial Energy Systems division inched back into positive territory as some previously delayed government projects came on line. On balance, the bottom line increased 11%, to \$1.13 a share.

We look for the natural gas distributor to post a double-digit earnings advance this year. This should be supported by steady growth at the regulated utility segment, solid gains at the retail energy marketing unit, and positive

contributions from the commercial energy services division. Too, warmer weather and lower natural gas prices should have a favorable effect on the wholesale energy solutions business, although this does not augur well for WGL's other operations.

The company's balance sheet is improving. So far this year, cash reserves increased 27%, to \$5.5 million. At the same time, the long-term debt load remains constant at about \$585 million. **We have introduced our 2013 top- and bottom-line estimates at \$2.85 billion and \$2.55 a share, respectively.** Aside from steady growth in customer accounts, WGL is awaiting the decision for a rate increase in Virginia. And, the company plans to file for a hike in rates for the District of Columbia, as well. Finally, alternative energy projects may also be a boon. **These shares offer a slightly above-average dividend yield, when compared to all other utilities in the Value Line universe.** However, they are currently trading inside our Target Price Range, thus, their appreciation potential is limited through 2015-2017.

Bryan J. Fong March 9, 2012

ATTACHMENT C

AMERICAN STS WTR CO (NYSE)
ZACKS RANK: 3 - HOLD

AWR 36.92 ▼ -0.55 (-1.47%) **Vol.** 38,083 **12:53 ET**

American States is a public utility company engaged principally in the purchase, production, distribution and sale of water. The company also distributes electricity in some communities. In the customer service areas for both water and electric, rates and operations are subject to the jurisdiction of the California Public Utilities Commission.


General Information

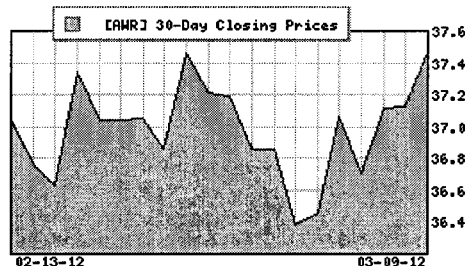
AMER STATES WTR
 630 E FOOTHILL BLVD
 SAN DIMAS, CA 91773-9016
 Phone: 9093943600
 Fax: 909-394-0711
 Web: <http://www.aswater.com>
 Email: nvestorinfo@aswater.com

Industry UTIL-WATER
 SPLY
Sector: Utilities

Fiscal Year End December
Last Completed Quarter 12/31/11
Next EPS Date 03/12/2012

Price and Volume Information

Zacks Rank 
Yesterday's Close 37.47
52 Week High 37.91
52 Week Low 30.53
Beta 0.34
20 Day Moving Average 109,232.50
Target Price Consensus 39.5


% Price Change

4 Week 2.55
 12 Week 8.61
 YTD 7.36

% Price Change Relative to S&P 500

4 Week 0.43
 12 Week -3.37
 YTD -1.51

Share Information

Shares Outstanding 18.74
 (millions)
Market Capitalization 702.00
 (millions)
Short Ratio 5.46
Last Split Date 06/10/2002

Dividend Information

Dividend Yield 2.99%
Annual Dividend \$1.12
Payout Ratio 0.00
Change in Payout Ratio 0.00
Last Dividend Payout / Amount 02/10/2012 / \$0.28

EPS Information

Current Quarter EPS Consensus Estimate 0.38
Current Year EPS Consensus Estimate 2.22
Estimated Long-Term EPS Growth Rate 12.00
Next EPS Report Date 03/12/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 2.14
30 Days Ago 2.14
60 Days Ago 2.14
90 Days Ago 2.14

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 16.87	vs. Previous Year 33.87%	vs. Previous Year 7.72%
Trailing 12 Months: 16.65	vs. Previous Quarter 22.06%	vs. Previous Quarter: 9.17%
PEG Ratio 1.41		

Price Ratios

Price/Book

ROE

12/31/11

ROA

12/31/11

	1.73		-		-
Price/Cash Flow	18.47	09/30/11	10.86	09/30/11	3.53
Price / Sales	-	06/30/11	10.05	06/30/11	3.20
Current Ratio			Quick Ratio		Operating Margin
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	1.38	09/30/11	1.35	09/30/11	9.88
06/30/11	1.38	06/30/11	1.36	06/30/11	9.13
Net Margin			Pre-Tax Margin		Book Value
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	17.27	09/30/11	17.27	09/30/11	21.68
06/30/11	14.11	06/30/11	14.11	06/30/11	21.05
Inventory Turnover			Debt-to-Equity		Debt to Capital
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	40.72	09/30/11	0.84	09/30/11	45.66
06/30/11	43.56	06/30/11	0.87	06/30/11	46.43

CALIFORNIA WTR SVC GROUP (NYSE)
ZACKS RANK: 5 - STRONG SELL

CWT 18.46 ▲ 0.03 (0.16%) Vol. 127,593 13:09 ET

California Water Service Company's business, which is carried on through its operating subsidiaries, consists of the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. It also provides water related services under agreements with municipalities and other private companies. The nonregulated services include full water system operation, and billing and meter reading services.


General Information

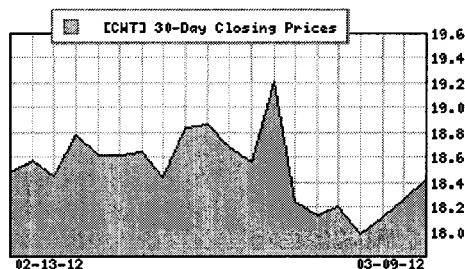
CALIF WATER SVC
 1720 N FIRST ST C/O CALIFORNIA WATER
 SERVICE CO
 SAN JOSE, CA 95112
 Phone: 4083678200
 Fax: 831-427-9185
 Web: <http://www.calwatergroup.com>
 Email: None

Industry: UTIL-WATER
 Sector: SPLY
 Utilities

Fiscal Year End: December
 Last Completed Quarter: 12/31/11
 Next EPS Date: 05/09/2012

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 18.43
 52 Week High: 19.37
 52 Week Low: 16.65
 Beta: 0.29
 20 Day Moving Average: 379,125.81
 Target Price Consensus: 20.6


% Price Change

4 Week: 0.77
 12 Week: 2.28
 YTD: 0.93

% Price Change Relative to S&P 500

4 Week: -1.31
 12 Week: -9.01
 YTD: -7.41

Share Information

Shares Outstanding (millions): 41.82
 Market Capitalization (millions): 770.69
 Short Ratio: 3.53
 Last Split Date: 06/13/2011

Dividend Information

Dividend Yield: 3.42%
 Annual Dividend: \$0.63
 Payout Ratio: 0.72
 Change in Payout Ratio: 0.03
 Last Dividend Payout / Amount: 02/02/2012 / \$0.16

EPS Information

Current Quarter EPS Consensus Estimate: 0.04
 Current Year EPS Consensus Estimate: 1.06
 Estimated Long-Term EPS Growth Rate: 10.00
 Next EPS Report Date: 05/09/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.38
 30 Days Ago: 2.00
 60 Days Ago: 2.00
 90 Days Ago: 2.00

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 17.43	vs. Previous Year: -65.22%	vs. Previous Year: -2.32%
Trailing 12 Months: 21.56	vs. Previous Quarter: -92.00%	vs. Previous Quarter: -39.14%
PEG Ratio: 1.74		

Price Ratios		ROE		ROA	
Price/Book	1.71	12/31/11	8.13	12/31/11	2.03
Price/Cash Flow	8.81	09/30/11	8.88	09/30/11	2.25
Price / Sales	1.54	06/30/11	8.84	06/30/11	2.27
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	0.75	12/31/11	0.71	12/31/11	7.18
09/30/11	0.97	09/30/11	0.93	09/30/11	7.74
06/30/11	1.00	06/30/11	0.95	06/30/11	8.00
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	12.13	12/31/11	12.13	12/31/11	10.76
09/30/11	13.44	09/30/11	13.44	09/30/11	10.88
06/30/11	13.33	06/30/11	13.33	06/30/11	10.50
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	34.01	12/31/11	1.07	12/31/11	51.71
09/30/11	33.41	09/30/11	1.05	09/30/11	51.26
06/30/11	31.64	06/30/11	1.09	06/30/11	52.17

MIDDLESEX WATER CO (NASD)
ZACKS RANK: 3 - HOLD
MSEX 18.67 ▲ 0.22 (1.19%) Vol. 20,588 12:59 ET

Middlesex Water Company treats, stores and distributes water for residential, commercial, industrial and fire prevention purposes.


General Information

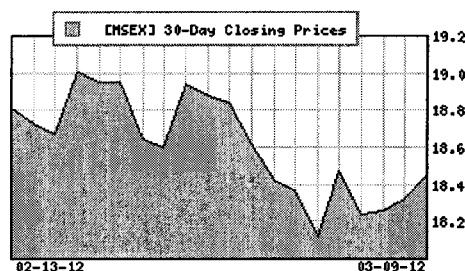
MIDDLESEX WATER
 1500 RONSON RD P O BOX 1500
 ISELIN, NJ 08830
 Phone: 7326341500
 Fax: 732-638-7515
 Web: <http://www.middlesexwater.com>
 Email: bsohler@middlesexwater.com

Industry: UTIL-WATER
 SPLY
 Sector: Utilities

Fiscal Year End: December
 Last Completed Quarter: 12/31/11
 Next EPS Date: 05/11/2012

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 18.45
 52 Week High: 19.60
 52 Week Low: 16.51
 Beta: 0.46
 20 Day Moving Average: 27,718.05
 Target Price Consensus: 20


% Price Change

4 Week: -1.13
 12 Week: 0.93
 YTD: -1.13

% Price Change Relative to S&P 500

4 Week: -3.16
 12 Week: -10.20
 YTD: -9.30

Share Information

Shares Outstanding (millions): 15.64
 Market Capitalization (millions): 288.47
 Short Ratio: 9.79
 Last Split Date: 11/17/2003

Dividend Information

Dividend Yield: 4.01%
 Annual Dividend: \$0.74
 Payout Ratio: 0.88
 Change in Payout Ratio: 0.10
 Last Dividend Payout / Amount: 02/13/2012 / \$0.19

EPS Information

Current Quarter EPS Consensus Estimate: 0.16
 Current Year EPS Consensus Estimate: 0.98
 Estimated Long-Term EPS Growth Rate: -
 Next EPS Report Date: 05/11/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.33
 30 Days Ago: 2.33
 60 Days Ago: 2.33
 90 Days Ago: 2.33

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	18.89	vs. Previous Year	-25.00%	vs. Previous Year	-6.68%
Trailing 12 Months:	21.96	vs. Previous Quarter	-62.50%	vs. Previous Quarter:	-18.73%
PEG Ratio: -					
Price Ratios		ROE		ROA	
Price/Book	1.63	12/31/11	7.65	12/31/11	2.64

Price/Cash Flow	12.08	09/30/11	8.02	09/30/11	2.82
Price / Sales	2.83	06/30/11	8.41	06/30/11	2.98
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	0.49	12/31/11	0.45	12/31/11	13.17
09/30/11	0.57	09/30/11	0.53	09/30/11	13.50
06/30/11	0.58	06/30/11	0.54	06/30/11	13.95
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	19.57	12/31/11	19.57	12/31/11	11.32
09/30/11	20.10	09/30/11	20.10	09/30/11	11.36
06/30/11	20.50	06/30/11	20.50	06/30/11	11.21
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	30.28	12/31/11	0.75	12/31/11	42.29
09/30/11	29.83	09/30/11	0.75	09/30/11	42.31
06/30/11	29.81	06/30/11	0.77	06/30/11	43.06

SJW CORP (NYSE)
ZACKS RANK: 3 - HOLD

SJW 23.98 ▼ -0.24 (-0.99%) Vol. 11,079 13:11 ET

SJW CORP. is a holding company which operates through its wholly-owned subsidiaries, San Jose Water Co., SJW Land Co., and Western Precision, Inc. San Jose Water Co., is a public utility in the business of providing waterservice to a population of approximately 928,000 people. Their servicearea encompasses about 134 sq. miles in the metropolitan San Juan area. SJW Land Co. operates parking facilities located adjacent to the theirheadquarters and the San Jose area.


General Information

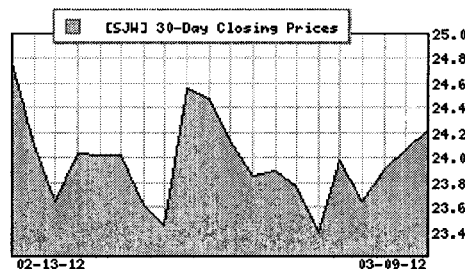
SJW CORP
 110 W. TAYLOR STREET
 SAN JOSE, CA 95110
 Phone: 4082797800
 Fax: 408-279-7917
 Web: <http://www.sjwater.com/>
 Email: boardofdirectors@sjwater.com

Industry: UTIL-WATER
 Sector: SPLY
 Utilities

Fiscal Year End: December
 Last Completed Quarter: 12/31/11
 Next EPS Date: 04/25/2012

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 24.22
 52 Week High: 25.32
 52 Week Low: 20.87
 Beta: 0.58
 20 Day Moving Average: 28,734.55
 Target Price Consensus: 27.67


% Price Change

4 Week: 0.54
 12 Week: 3.11
 YTD: 2.45

% Price Change Relative to S&P 500

4 Week: -1.53
 12 Week: -8.27
 YTD: -6.01

Share Information

Shares Outstanding (millions): 18.62
 Market Capitalization (millions): 450.93
 Short Ratio: 13.14
 Last Split Date: 03/17/2006

Dividend Information

Dividend Yield: 2.93%
 Annual Dividend: \$0.71
 Payout Ratio: 0.74
 Change in Payout Ratio: 0.04
 Last Dividend Payout / Amount: 02/02/2012 / \$0.18

EPS Information

Current Quarter EPS Consensus Estimate: 0.03
 Current Year EPS Consensus Estimate: 0.99
 Estimated Long-Term EPS Growth Rate: -
 Next EPS Report Date: 04/25/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 1.67
 30 Days Ago: 2.33
 60 Days Ago: 2.33
 90 Days Ago: 2.33

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 24.55	vs. Previous Year: 70.00%	vs. Previous Year: 22.83%
Trailing 12 Months: 26.04	vs. Previous Quarter: -61.36%	vs. Previous Quarter: -15.66%
PEG Ratio: -		

Price Ratios		ROE		ROA	
Price/Book	1.71	12/31/11	6.79	12/31/11	1.75
Price/Cash Flow	8.96	09/30/11	6.34	09/30/11	1.66
Price / Sales	1.89	06/30/11	6.33	06/30/11	1.68
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	2.44	12/31/11	2.40	12/31/11	7.34
09/30/11	2.31	09/30/11	2.28	09/30/11	7.13
06/30/11	2.13	06/30/11	2.10	06/30/11	7.22
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	14.83	12/31/11	14.83	12/31/11	14.20
09/30/11	16.55	09/30/11	16.55	09/30/11	14.01
06/30/11	18.84	06/30/11	18.84	06/30/11	13.73
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	106.64	12/31/11	1.30	12/31/11	56.57
09/30/11	105.35	09/30/11	1.32	09/30/11	56.96
06/30/11	103.29	06/30/11	1.35	06/30/11	57.47

AQUA AMERICA INC (NYSE)
ZACKS RANK: 3 - HOLD

WTR 22.31 ▲ 0.09 (0.41%) Vol. 212,349 13:12 ET

Aqua America is the largest publicly-traded U.S.-based water utility serving residents in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. The company has been committed to the preservation and improvement of the environment throughout its history, which spans more than 100 years.


General Information

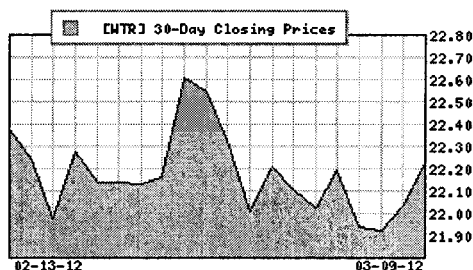
AQUA AMER INC
 762 W. LANCASTER AVE
 BRYN MAWR, PA 19010-3489
 Phone: 610-527-8000
 Fax: 610-645-1061
 Web: <http://www.aquaamerica.com>
 Email: None

Industry: UTIL-WATER
 SPLY
 Sector: Utilities

Fiscal Year End: December
 Last Completed Quarter: 12/31/11
 Next EPS Date: 05/11/2012

Price and Volume Information

Zacks Rank: 
 Yesterday's Close: 22.22
 52 Week High: 23.28
 52 Week Low: 19.28
 Beta: 0.21
 20 Day Moving Average: 507,457.94
 Target Price Consensus: 24.71


% Price Change

4 Week: 0.68
 12 Week: 3.01
 YTD: 0.77

% Price Change Relative to S&P 500

4 Week: -1.39
 12 Week: -8.35
 YTD: -7.56

Share Information

Shares Outstanding (millions): 138.88
 Market Capitalization (millions): 3,085.85
 Short Ratio: 10.15
 Last Split Date: 12/02/2005

Dividend Information

Dividend Yield: 2.97%
 Annual Dividend: \$0.66
 Payout Ratio: 0.70
 Change in Payout Ratio: 0.01
 Last Dividend Payout / Amount: 02/15/2012 / \$0.17

EPS Information

Current Quarter EPS Consensus Estimate: 0.21
 Current Year EPS Consensus Estimate: 1.08
 Estimated Long-Term EPS Growth Rate: 8.30
 Next EPS Report Date: 05/11/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.15
 30 Days Ago: 1.92
 60 Days Ago: 1.92
 90 Days Ago: 1.92

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 20.50	vs. Previous Year: -4.76%	vs. Previous Year: -3.69%
Trailing 12 Months: 23.64	vs. Previous Quarter: -33.33%	vs. Previous Quarter: -12.48%
PEG Ratio: 2.48		

Price Ratios
ROE
ROA

Price/Book	2.46	12/31/11	10.73	12/31/11	3.10
Price/Cash Flow	12.73	09/30/11	10.94	09/30/11	3.16
Price / Sales	4.23	06/30/11	11.25	06/30/11	3.26
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	0.75	12/31/11	0.73	12/31/11	17.91
09/30/11	0.78	09/30/11	0.76	09/30/11	17.81
06/30/11	0.58	06/30/11	0.54	06/30/11	17.78
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	30.32	12/31/11	30.32	12/31/11	9.03
09/30/11	29.01	09/30/11	29.01	09/30/11	8.76
06/30/11	28.05	06/30/11	28.05	06/30/11	8.77
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	23.76	12/31/11	1.11	12/31/11	52.71
09/30/11	24.09	09/30/11	1.16	09/30/11	53.63
06/30/11	24.90	06/30/11	1.21	06/30/11	54.78

AGL RESOURCES INC (NYSE)
ZACKS RANK: 5 - STRONG SELL

GAS 39.45 ▲0.07 (0.18%) Vol. 165,859 13:12 ET

AGL Resources principal business is the distribution of natural gas to customers in central, northwest, northeast and southeast Georgia and the Chattanooga, Tennessee area through its natural gas distribution subsidiary. AGL's major service area is the ten county metropolitan Atlanta area.


General Information

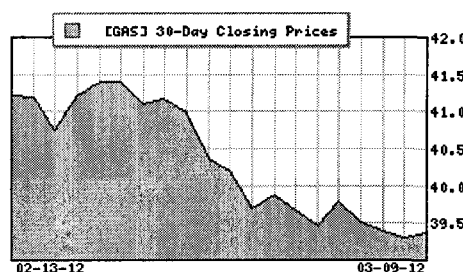
AGL RESOURCES
 TEN PEACHTREE PLACE
 ATLANTA, GA 30309
 Phone: 4045844000
 Fax: 404-584-3945
 Web: <http://www.aglresources.com>
 Email: scave@aglresources.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Completed Quarter: 12/31/11
 Next EPS Date: 05/08/2012

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 39.38
 52 Week High: 43.69
 52 Week Low: 34.08
 Beta: 0.42
 20 Day Moving Average: 537,024.69
 Target Price Consensus: 42.2


% Price Change

4 Week: -5.25
 12 Week: -3.97
 YTD: -6.81

% Price Change Relative to S&P 500

4 Week: -7.20
 12 Week: -14.57
 YTD: -14.51

Share Information

Shares Outstanding (millions): 117.10
 Market Capitalization (millions): 4,611.40
 Short Ratio: 3.49
 Last Split Date: 12/04/1995

Dividend Information

Dividend Yield: 4.57%
 Annual Dividend: \$1.80
 Payout Ratio: 0.63
 Change in Payout Ratio: 0.02
 Last Dividend Payout / Amount: 02/15/2012 / \$0.45

EPS Information

Current Quarter EPS Consensus Estimate: 1.35
 Current Year EPS Consensus Estimate: 2.87
 Estimated Long-Term EPS Growth Rate: 4.30
 Next EPS Report Date: 05/08/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.57
 30 Days Ago: 2.57
 60 Days Ago: 2.57
 90 Days Ago: 2.50

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 13.70	vs. Previous Year: 1.16%	vs. Previous Year: 18.80%
Trailing 12 Months: 13.82	vs. Previous Quarter: 4,250.00%	vs. Previous Quarter: 167.80%
PEG Ratio: 3.16		

Price Ratios	ROE	ROA
Price/Book: 0.93	12/31/11: 10.23	12/31/11: 2.60

Price/Cash Flow	7.41	09/30/11	11.78	09/30/11	3.05
Price / Sales	1.97	06/30/11	12.98	06/30/11	3.39
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	0.89	12/31/11	0.65	12/31/11	9.90
09/30/11	1.58	09/30/11	1.02	09/30/11	10.05
06/30/11	1.15	06/30/11	0.76	06/30/11	10.72
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	13.30	12/31/11	13.30	12/31/11	42.51
09/30/11	15.41	09/30/11	15.41	09/30/11	23.97
06/30/11	16.83	06/30/11	16.83	06/30/11	24.46
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	2.77	12/31/11	1.07	12/31/11	51.61
09/30/11	2.82	09/30/11	1.43	09/30/11	58.82
06/30/11	2.81	06/30/11	1.13	06/30/11	53.06

ATMOS ENERGY CORP (NYSE)
ZACKS RANK: 3 - HOLD
ATO 31.24 ▲0.15 (0.48%) Vol. 221,240 13:15 ET

Atmos Energy Corporation distributes and sells natural gas to residential, commercial, industrial, agricultural and other customers. Atmos operates through five divisions in cities, towns and communities in service areas located in Colorado, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Missouri, South Carolina, Tennessee, Texas and Virginia. The Company has entered into an agreement to sell all of its natural gas utility operations in South Carolina. The Company also transports natural gas for others through its distribution system.


General Information

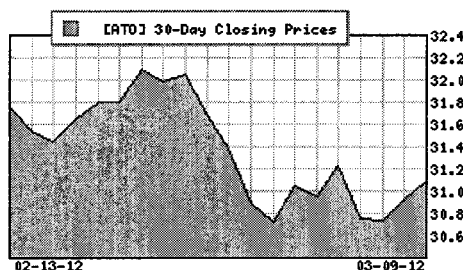
ATMOS ENERGY CP
 1800 THREE LINCOLN CTR 5430 LBJ
 FREEWAY
 DALLAS, TX 75240
 Phone: 972-934-9227
 Fax: 972-855-3040
 Web: <http://www.atmosenergy.com>
 Email: None

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: September
 Last Completed Quarter: 09/30/11
 Next EPS Date: 05/09/2012

Price and Volume Information

Zacks Rank: 
 Yesterday's Close: 31.09
 52 Week High: 35.55
 52 Week Low: 28.51
 Beta: 0.48
 20 Day Moving Average: 432,179.59
 Target Price Consensus: 34.5


% Price Change

4 Week: -1.49
 12 Week: -5.07
 YTD: -6.78

% Price Change Relative to S&P 500

4 Week: -3.52
 12 Week: -15.54
 YTD: -14.48

Share Information

Shares Outstanding (millions): 90.22
 Market Capitalization (millions): 2,804.91
 Short Ratio: 1.31
 Last Split Date: 05/17/1994

Dividend Information

Dividend Yield: 4.44%
 Annual Dividend: \$1.38
 Payout Ratio: 0.67
 Change in Payout Ratio: 0.04
 Last Dividend Payout / Amount: 02/23/2012 / \$0.34

EPS Information

Current Quarter EPS Consensus Estimate: 1.44
 Current Year EPS Consensus Estimate: 2.33
 Estimated Long-Term EPS Growth Rate: 4.70
 Next EPS Report Date: 05/09/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.86
 30 Days Ago: 2.86
 60 Days Ago: 2.86
 90 Days Ago: 2.86

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 13.35	vs. Previous Year: -24.69%	vs. Previous Year: -2.83%
Trailing 12 Months: 15.17	vs. Previous Quarter: 916.67%	vs. Previous Quarter: 46.14%
PEG Ratio: 2.86		

Price Ratios		ROE		ROA	
Price/Book	1.24	12/31/11	8.09	12/31/11	2.59
Price/Cash Flow	6.55	09/30/11	8.88	09/30/11	2.88
Price / Sales	0.65	06/30/11	8.70	06/30/11	2.85
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	1.07	12/31/11	0.79	12/31/11	4.33
09/30/11	1.17	09/30/11	0.83	09/30/11	4.72
06/30/11	1.53	06/30/11	1.13	06/30/11	4.62
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	7.04	12/31/11	7.04	12/31/11	25.10
09/30/11	7.19	09/30/11	7.19	09/30/11	24.98
06/30/11	7.19	06/30/11	7.19	06/30/11	25.86
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	12.51	12/31/11	0.97	12/31/11	49.31
09/30/11	12.46	09/30/11	0.98	09/30/11	49.45
06/30/11	12.07	06/30/11	0.94	06/30/11	48.57

LACLEDE GROUP INC (NYSE)
ZACKS RANK: 2 - BUY

LG **40.97** **▲0.02** **(0.05%)** **Vol. 30,319** **13:15 ET**

The Laclede Group, Inc. is a public utility engaged in the retail distribution and transportation of natural gas. The Company, which is subject to the jurisdiction of the Missouri Public Service Commission, serves the City of St. Louis, St. Louis County, the City of St. Charles, St. Charles County, the town of Arnold, and parts of Franklin, Jefferson, St. Francois, Ste. Genevieve, Iron, Madison and Butler Counties, all in Missouri.

General Information

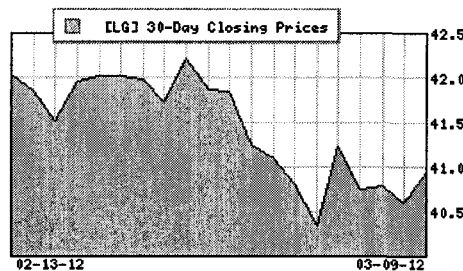
LACLEDE GRP INC
 720 OLIVE ST
 ST LOUIS, MO 63101
 Phone: 3143420500
 Fax: 314-421-1979
 Web: <http://www.thelacledegroupp.com>
 Email: kullman@lacledegas.com

Industry **UTIL-GAS DISTR**
Sector: **Utilities**

Fiscal Year End **September**
Last Completed Quarter **09/30/11**
Next EPS Date **04/27/2012**

Price and Volume Information

Zacks Rank **2**
Yesterday's Close **40.95**
52 Week High **43.00**
52 Week Low **32.90**
Beta **0.06**
20 Day Moving Average **107,503.75**
Target Price Consensus **42**


% Price Change

4 Week **-2.38**
12 Week **3.67**
YTD **1.19**

% Price Change Relative to S&P 500

4 Week **-4.39**
12 Week **-7.76**
YTD **-7.17**

Share Information

Shares Outstanding **22.49**
(millions)
Market Capitalization **920.80**
(millions)
Short Ratio **9.31**
Last Split Date **03/08/1994**

Dividend Information

Dividend Yield **4.05%**
Annual Dividend **\$1.66**
Payout Ratio **0.58**
Change in Payout Ratio **-0.02**
Last Dividend Payout / Amount **03/08/2012 / \$0.41**

EPS Information

Current Quarter EPS Consensus Estimate **1.37**
Current Year EPS Consensus Estimate **2.68**
Estimated Long-Term EPS Growth Rate **3.00**
Next EPS Report Date **04/27/2012**

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) **3.00**
30 Days Ago **3.00**
60 Days Ago **3.00**
90 Days Ago **3.00**

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	15.27	vs. Previous Year	5.71%	vs. Previous Year	-7.49%
Trailing 12 Months:	14.37	vs. Previous Quarter	892.86%	vs. Previous Quarter:	51.60%
PEG Ratio	5.09				

Price Ratios		ROE		ROA	
Price/Book	1.56	12/31/11	11.03	12/31/11	3.58

Price/Cash Flow	8.99	09/30/11	10.96	09/30/11	3.50
Price / Sales	0.59	06/30/11	11.46	06/30/11	3.57
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	1.29	12/31/11	0.89	12/31/11	4.06
09/30/11	1.59	09/30/11	1.04	09/30/11	3.88
06/30/11	1.86	06/30/11	1.48	06/30/11	3.96
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	6.10	12/31/11	6.10	12/31/11	26.25
09/30/11	5.80	09/30/11	5.80	09/30/11	25.56
06/30/11	5.91	06/30/11	5.91	06/30/11	25.86
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	12.27	12/31/11	0.58	12/31/11	36.53
09/30/11	12.58	09/30/11	0.64	09/30/11	38.86
06/30/11	12.61	06/30/11	0.63	06/30/11	38.60

NEW JERSEY RES (NYSE)
ZACKS RANK: 3 - HOLD

NJR 45.66 ▲ 0.10 (0.22%) Vol. 130,236 13:16 ET

NJ RESOURCES is an exempt energy svcs holding company providing retail & wholesale natural gas & related energy services to customers from the Gulf Coast to New England. Subsidiaries include: (1) N J Natural Gas Co, a natural gas distribution company that provides regulated energy & appliance services to residential, commercial & industrial customers in central & northern N J. (2) NJR Energy Holdings Corp formerly NJR Energy Svcs Corp & (3) NJR Development Corp, a sub-holding company of NJR, which includes the Company's remaining unregulated operating subsidiaries.


General Information

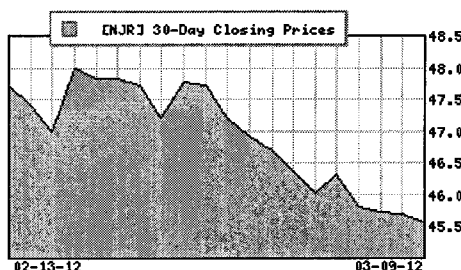
NJ RESOURCES
 1415 WYCKOFF RD PO BOX 1468
 WALL, NJ 07719
 Phone: 9089381494
 Fax: 732-938-2134
 Web: <http://www.njresources.com>
 Email: dpuma@njresources.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: September
 Last Completed Quarter: 09/30/11
 Next EPS Date: 05/09/2012

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 45.56
 52 Week High: 50.48
 52 Week Low: 39.60
 Beta: 0.25
 20 Day Moving Average: 193,673.16
 Target Price Consensus: 48.4


% Price Change

4 Week: -3.70
 12 Week: -4.00
 YTD: -7.40

% Price Change Relative to S&P 500

4 Week: -5.68
 12 Week: -14.59
 YTD: -15.05

Share Information

Shares Outstanding (millions): 41.48
 Market Capitalization (millions): 1,889.69
 Short Ratio: 10.20
 Last Split Date: 03/04/2008

Dividend Information

Dividend Yield: 3.34%
 Annual Dividend: \$1.52
 Payout Ratio: 0.52
 Change in Payout Ratio: -0.03
 Last Dividend Payout / Amount: 12/13/2011 / \$0.38

EPS Information

Current Quarter EPS Consensus Estimate: 1.63
 Current Year EPS Consensus Estimate: 2.75
 Estimated Long-Term EPS Growth Rate: 4.50
 Next EPS Report Date: 05/09/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 3.00
 30 Days Ago: 3.00
 60 Days Ago: 2.88
 90 Days Ago: 2.88

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 16.55	vs. Previous Year: 55.71%	vs. Previous Year: -9.92%
Trailing 12 Months: 15.44	vs. Previous Quarter: 5,350.00%	vs. Previous Quarter: -4.25%
PEG Ratio: 3.68		

Price Ratios		ROE		ROA	
Price/Book	2.30	12/31/11	15.44	12/31/11	4.64
Price/Cash Flow	13.32	09/30/11	13.77	09/30/11	4.08
Price / Sales	0.64	06/30/11	13.74	06/30/11	4.04
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	1.03	12/31/11	0.68	12/31/11	4.18
09/30/11	1.04	09/30/11	0.61	09/30/11	3.54
06/30/11	1.18	06/30/11	0.77	06/30/11	3.52
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	5.53	12/31/11	5.53	12/31/11	19.81
09/30/11	4.22	09/30/11	4.22	09/30/11	18.73
06/30/11	4.85	06/30/11	4.85	06/30/11	19.25
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	9.90	12/31/11	0.53	12/31/11	34.47
09/30/11	9.61	09/30/11	0.55	09/30/11	35.48
06/30/11	9.08	06/30/11	0.54	06/30/11	34.97

NORTHWEST NAT GAS CO (NYSE)

ZACKS RANK: 5 - STRONG SELL

NWN 46.13 ▲0.16 (0.35%) Vol. 48,496 13:17 ET

NW Natural is principally engaged in the distribution of natural gas. The Oregon Public Utility Commission (OPUC) has allocated to NW Natural as its exclusive service area a major portion of western Oregon, including the Portland metropolitan area, most of the fertile Willamette Valley and the coastal area from Astoria to Coos Bay. NW Natural also holds certificates from the Washington Utilities and Transportation Commission (WUTC) granting it exclusive rights to serve portions of three Washington counties bordering the Columbia River.


General Information

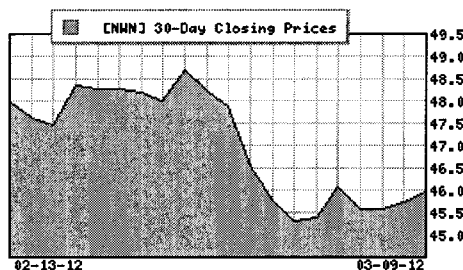
NORTHWEST NAT G
 ONE PACIFIC SQUARE 220 NW SECOND AVE
 PORTLAND, OR -
 Phone: 5032264211
 Fax: 503-273-4824
 Web: <http://www.nwnatural.com>
 Email: Bob.Hess@nwnatural.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Completed Quarter: 12/31/11
 Next EPS Date: 05/09/2012

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 45.97
 52 Week High: 49.49
 52 Week Low: 39.63
 Beta: 0.31
 20 Day Moving Average: 111,635.20
 Target Price Consensus: 48.38



% Price Change

4 Week: -3.73
 12 Week: -1.94
 YTD: -4.09

% Price Change Relative to S&P 500

4 Week: -5.71
 12 Week: -12.76
 YTD: -12.01

Share Information

Shares Outstanding (millions): 26.79
 Market Capitalization (millions): 1,231.63
 Short Ratio: 18.50
 Last Split Date: 09/09/1996

Dividend Information

Dividend Yield: 3.87%
 Annual Dividend: \$1.78
 Payout Ratio: 0.70
 Change in Payout Ratio: 0.10
 Last Dividend Payout / Amount: 01/27/2012 / \$0.44

EPS Information

Current Quarter EPS Consensus Estimate: 1.52
 Current Year EPS Consensus Estimate: 2.50
 Estimated Long-Term EPS Growth Rate: 4.30
 Next EPS Report Date: 05/09/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.40
 30 Days Ago: 2.20
 60 Days Ago: 2.20
 90 Days Ago: 2.33

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 18.40	vs. Previous Year: -1.80%	vs. Previous Year: 1.14%
Trailing 12 Months: 17.96	vs. Previous Quarter: 451.61%	vs. Previous Quarter: 190.63%
PEG Ratio: 4.28		

Price Ratios

ROE

ROA

Price/Book	1.72	12/31/11	9.59	12/31/11	2.62
Price/Cash Flow	8.88	09/30/11	9.71	09/30/11	2.67
Price / Sales	1.45	06/30/11	9.91	06/30/11	2.73
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	0.84	12/31/11	0.66	12/31/11	8.05
09/30/11	0.62	09/30/11	0.41	09/30/11	8.12
06/30/11	0.60	06/30/11	0.41	06/30/11	8.20
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	12.64	12/31/11	12.64	12/31/11	26.76
09/30/11	12.77	09/30/11	12.77	09/30/11	26.11
06/30/11	12.91	06/30/11	12.91	06/30/11	26.79
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	8.27	12/31/11	0.90	12/31/11	47.32
09/30/11	8.07	09/30/11	0.86	09/30/11	46.35
06/30/11	7.93	06/30/11	0.77	06/30/11	43.57

PIEDMONT NAT GAS INC (NYSE)

ZACKS RANK: 5 - STRONG SELL

PNY 32.21 ▼-0.11 (-0.34%) Vol. 141,094 13:17 ET

Piedmont Natural Gas Co., Inc., is an energy and services company engaged in the transportation and sale of natural gas and the sale of propane to residential, commercial and industrial customers in North Carolina, South Carolina and Tennessee. The Company is the second-largest natural gas utility in the southeast. The Company and its non-utility subsidiaries and divisions are also engaged in acquiring, marketing and arranging for the transportation and storage of natural gas for large-volume purchasers, and in the sale of propane to customers in the Company's three-state service area.


General Information

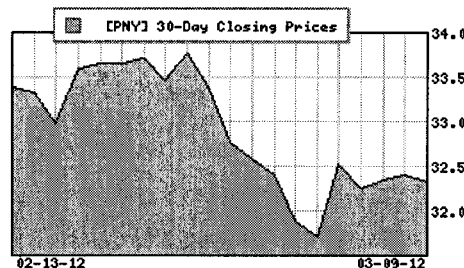
PIEDMONT NAT GA
4720 PIEDMONT ROW DR
CHARLOTTE, NC 28233
Phone: 7043643120
Fax: 704-365-3849
Web: <http://www.piedmontng.com>
Email: nvestorrelations@piedmontng.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: October
Last Completed Quarter: 10/31/11
Next EPS Date: 06/06/2012

Price and Volume Information

Zacks Rank 
Yesterday's Close: 32.32
52 Week High: 34.74
52 Week Low: 25.86
Beta: 0.30
20 Day Moving Average: 358,200.84
Target Price Consensus: 31.67



% Price Change

4 Week: -2.77
12 Week: -3.58
YTD: -4.89

% Price Change Relative to S&P 500

4 Week: -4.77
12 Week: -14.22
YTD: -12.74

Share Information

Shares Outstanding (millions): 72.34
Market Capitalization (millions): 2,338.09
Short Ratio: 16.95
Last Split Date: 11/01/2004

Dividend Information

Dividend Yield: 3.59%
Annual Dividend: \$1.16
Payout Ratio: 0.79
Change in Payout Ratio: 0.09
Last Dividend Payout / Amount: 12/22/2011 / \$0.29

EPS Information

Current Quarter EPS Consensus Estimate: 0.68
Current Year EPS Consensus Estimate: 1.65
Estimated Long-Term EPS Growth Rate: 4.70
Next EPS Report Date: 06/06/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 3.50
30 Days Ago: 3.50
60 Days Ago: 3.38
90 Days Ago: 2.88

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 19.54	vs. Previous Year: -9.48%	vs. Previous Year: -27.64%
Trailing 12 Months: 22.14	vs. Previous Quarter: 907.69%	vs. Previous Quarter: 145.74%
PEG Ratio: 4.19		

Price Ratios			ROE		ROA	
Price/Book	2.34	01/31/12	10.31	01/31/12	3.33	
Price/Cash Flow	10.58	10/31/11	11.13	10/31/11	3.55	
Price / Sales	1.86	07/31/11	11.26	07/31/11	3.62	
Current Ratio		Quick Ratio		Operating Margin		
01/31/12	-	01/31/12	-	01/31/12	8.40	
10/31/11	0.54	10/31/11	0.36	10/31/11	7.92	
07/31/11	0.73	07/31/11	0.54	07/31/11	7.94	
Net Margin		Pre-Tax Margin		Book Value		
01/31/12	-	01/31/12	-	01/31/12	-	
10/31/11	12.96	10/31/11	12.96	10/31/11	13.81	
07/31/11	13.03	07/31/11	13.03	07/31/11	14.20	
Inventory Turnover		Debt-to-Equity		Debt to Capital		
01/31/12	-	01/31/12	-	01/31/12	-	
10/31/11	11.66	10/31/11	0.68	10/31/11	40.37	
07/31/11	11.25	07/31/11	0.66	07/31/11	39.77	

SOUTH JERSEY INDS INC (NYSE)
ZACKS RANK: 3 - HOLD

SJI 51.88 ▲ 0.29 (0.56%) Vol. 56,617 13:19 ET

South Jersey Inds Inc. is engaged in the business of operating, through subsidiaries, various business enterprises. The company's most significant subsidiary is South Jersey Gas Company (SJG). SJG is a public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also makes off-system sales of natural gas on a wholesale basis to various customers on the interstate pipeline system and transports natural gas.


General Information

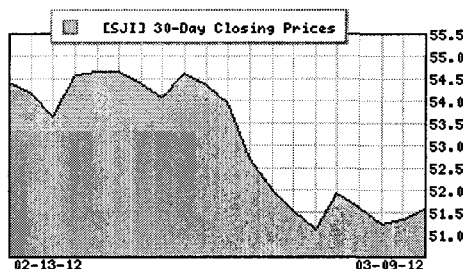
SOUTH JERSEY IN
 1 SOUTH JERSEY PLAZA. ROUTE 54
 FOLSOM, NJ 08037
 Phone: 609-561-9000
 Fax: 609-561-8225
 Web: <http://www.sjindustries.com>
 Email: None

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Completed Quarter: 12/31/11
 Next EPS Date: 05/07/2012

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 51.59
 52 Week High: 58.03
 52 Week Low: 42.85
 Beta: 0.34
 20 Day Moving Average: 147,632.55
 Target Price Consensus: 61.75


% Price Change

4 Week: -4.50
 12 Week: -6.06
 YTD: -9.19

% Price Change Relative to S&P 500

4 Week: -6.47
 12 Week: -16.42
 YTD: -16.69

Share Information

Shares Outstanding (millions): 30.25
 Market Capitalization (millions): 1,560.60
 Short Ratio: 8.21
 Last Split Date: 07/01/2005

Dividend Information

Dividend Yield: 3.12%
 Annual Dividend: \$1.61
 Payout Ratio: 0.56
 Change in Payout Ratio: 0.03
 Last Dividend Payout / Amount: 03/07/2012 / \$0.40

EPS Information

Current Quarter EPS Consensus Estimate: 1.70
 Current Year EPS Consensus Estimate: 3.19
 Estimated Long-Term EPS Growth Rate: 6.00
 Next EPS Report Date: 05/07/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 1.67
 30 Days Ago: 1.33
 60 Days Ago: 1.33
 90 Days Ago: 1.33

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 16.15	vs. Previous Year: 20.69%	vs. Previous Year: -29.96%
Trailing 12 Months: 17.85	vs. Previous Quarter: 10,400.00%	vs. Previous Quarter: 44.27%
PEG Ratio: 2.69		

Price Ratios
ROE
ROA

Price/Book	2.49	12/31/11	14.28	12/31/11	4.14
Price/Cash Flow	11.54	09/30/11	13.66	09/30/11	3.95
Price / Sales	1.88	06/30/11	14.33	06/30/11	4.15
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	0.58	12/31/11	0.46	12/31/11	10.50
09/30/11	0.65	09/30/11	0.50	09/30/11	8.91
06/30/11	0.76	06/30/11	0.64	06/30/11	8.96
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	13.66	12/31/11	13.66	12/31/11	20.71
09/30/11	12.28	09/30/11	12.28	09/30/11	19.83
06/30/11	12.59	06/30/11	12.59	06/30/11	20.24
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	11.36	12/31/11	0.68	12/31/11	40.47
09/30/11	12.75	09/30/11	0.71	09/30/11	41.60
06/30/11	11.60	06/30/11	0.70	06/30/11	41.29

SOUTHWEST GAS CORP (NYSE)
ZACKS RANK: 2 - BUY

SWX 43.23 ▲ 0.07 (0.16%) Vol. 66,711 13:21 ET

SOUTHWEST GAS CORP. is principally engaged in the business of purchasing, transporting, and distributing natural gas in portions of Arizona, Nevada, and California. The Company also engaged in financial services activities, through PriMerit Bank, Federal Savings Bank (PriMerit or the Bank), a wholly owned subsidiary.


General Information

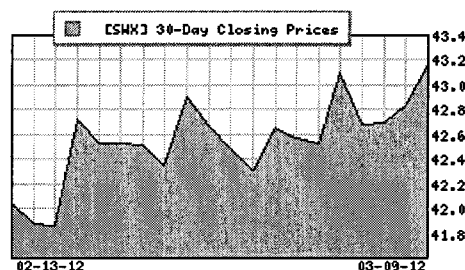
SOUTHWEST GAS
 5241 SPRING MOUNTAIN . PO BOX 98510RD
 LAS VEGAS, NV 89193-8510
 Phone: 7028767237
 Fax: 702-876-7037
 Web: <http://www.swgas.com>
 Email: None

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Completed Quarter: 12/31/11
 Next EPS Date: 05/09/2012

Price and Volume Information

Zacks Rank: 
 Yesterday's Close: 43.16
 52 Week High: 43.44
 52 Week Low: 32.12
 Beta: 0.70
 20 Day Moving Average: 159,635.70
 Target Price Consensus: 40.5


% Price Change

4 Week: 2.25
 12 Week: 8.14
 YTD: 1.58

% Price Change Relative to S&P 500

4 Week: 0.15
 12 Week: -3.79
 YTD: -6.82

Share Information

Shares Outstanding (millions): 46.09
 Market Capitalization (millions): 1,989.37
 Short Ratio: 6.56
 Last Split Date: N/A

Dividend Information

Dividend Yield: 2.46%
 Annual Dividend: \$1.06
 Payout Ratio: 0.42
 Change in Payout Ratio: -0.04
 Last Dividend Payout / Amount: 02/13/2012 / \$0.26

EPS Information

Current Quarter EPS Consensus Estimate: 1.55
 Current Year EPS Consensus Estimate: 2.55
 Estimated Long-Term EPS Growth Rate: 5.30
 Next EPS Report Date: 05/09/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.86
 30 Days Ago: 2.86
 60 Days Ago: 2.86
 90 Days Ago: 2.86

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 16.92	vs. Previous Year: 21.43%	vs. Previous Year: 10.58%
Trailing 12 Months: 17.26	vs. Previous Quarter: 695.00%	vs. Previous Quarter: 46.81%
PEG Ratio: 3.22		

Price Ratios	ROE	ROA
Price/Book: 1.62	12/31/11: 9.57	12/31/11: 2.89

Price/Cash Flow	6.99	09/30/11	8.82	09/30/11	2.69
Price / Sales	1.05	06/30/11	10.11	06/30/11	3.07
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	0.54	12/31/11	0.54	12/31/11	6.17
09/30/11	0.42	09/30/11	0.42	09/30/11	5.77
06/30/11	0.52	06/30/11	0.52	06/30/11	6.68
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	9.28	12/31/11	9.28	12/31/11	26.68
09/30/11	8.62	09/30/11	8.62	09/30/11	25.88
06/30/11	9.49	06/30/11	9.49	06/30/11	26.66
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	-	12/31/11	0.76	12/31/11	43.18
09/30/11	-	09/30/11	0.79	09/30/11	44.10
06/30/11	-	06/30/11	0.77	06/30/11	43.51

WGL HLDGS INC (NYSE)
ZACKS RANK: 3 - HOLD

WGL 41.50 ▲ 0.34 (0.83%) Vol. 141,996 13:21 ET

WASHINGTON GAS LIGHT CO is a public utility that delivers and sells natural gas to metropolitan Washington, D.C. and adjoining areas in Maryland and Virginia. A distribution subsidiary serves portions of Virginia and West Virginia. The Company has four wholly-owned active subsidiaries that include: Shenandoah Gas Company (Shenandoah) is engaged in the delivery and sale of natural gas at retail in the Shenandoah Valley, including Winchester, Middletown, Strasburg, Stephens City and New Market, Virginia, and Martinsburg, West Virginia.

General Information

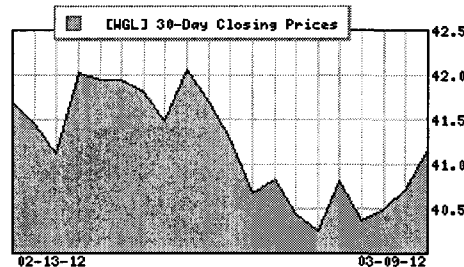
WGL HLDGS INC
 101 CONSTITUTION AVE N.W.
 WASHINGTON, DC 20080
 Phone: 7037504440
 Fax: 703-750-4828
 Web: <http://www.wglholdings.com>
 Email: robertdennis@washgas.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: September
 Last Completed Quarter: 09/30/11
 Next EPS Date: 05/09/2012

Price and Volume Information

Zacks Rank **B**
 Yesterday's Close 41.16
 52 Week High 44.99
 52 Week Low 34.71
 Beta 0.26
 20 Day Moving Average 367,043.16
 Target Price Consensus 43.86


% Price Change

4 Week -0.96
 12 Week -3.31
 YTD -6.92

% Price Change Relative to S&P 500

4 Week -3.00
 12 Week -13.98
 YTD -14.61

Share Information

Shares Outstanding (millions) 51.50
 Market Capitalization (millions) 2,119.66
 Short Ratio 11.23
 Last Split Date 05/02/1995

Dividend Information

Dividend Yield 3.77%
 Annual Dividend \$1.55
 Payout Ratio 0.65
 Change in Payout Ratio 0.03
 Last Dividend Payout / Amount 01/06/2012 / \$0.39

EPS Information

Current Quarter EPS Consensus Estimate 1.65
 Current Year EPS Consensus Estimate 2.50
 Estimated Long-Term EPS Growth Rate 5.20
 Next EPS Report Date 05/09/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 2.63
 30 Days Ago 2.63
 60 Days Ago 2.75
 90 Days Ago 2.75

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 16.45	vs. Previous Year 10.78%	vs. Previous Year -8.56%
Trailing 12 Months: 17.37	vs. Previous Quarter 534.62%	vs. Previous Quarter: 62.40%
PEG Ratio 3.18		

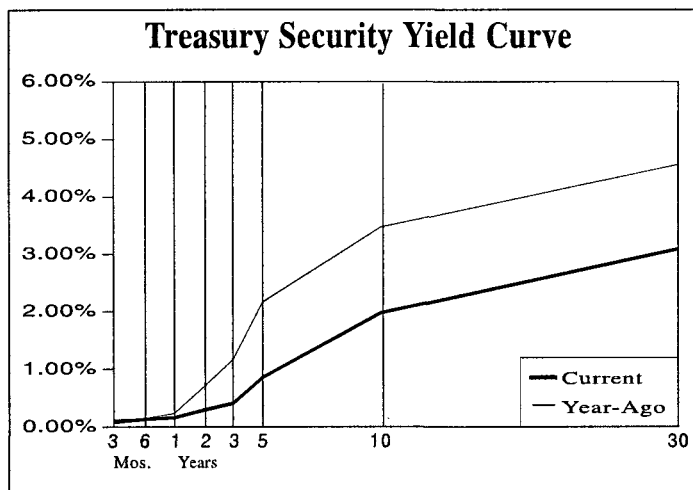
Price Ratios
ROE
ROA

Price/Book	1.71	12/31/11	9.85	12/31/11	3.12
Price/Cash Flow	9.74	09/30/11	9.41	09/30/11	2.99
Price / Sales	0.79	06/30/11	9.39	06/30/11	2.98
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	1.20	12/31/11	0.79	12/31/11	4.55
09/30/11	1.26	09/30/11	0.71	09/30/11	4.21
06/30/11	1.43	06/30/11	1.03	06/30/11	4.13
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	6.78	12/31/11	6.78	12/31/11	24.03
09/30/11	7.47	09/30/11	7.47	09/30/11	23.44
06/30/11	7.39	06/30/11	7.39	06/30/11	24.44
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	8.87	12/31/11	0.47	12/31/11	31.60
09/30/11	10.19	09/30/11	0.49	09/30/11	32.30
06/30/11	10.89	06/30/11	0.47	06/30/11	31.44

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Selected Yields

	Recent (2/29/12)	3 Months Ago (11/30/11)	Year Ago (3/2/11)		Recent (2/29/12)	3 Months Ago (11/30/11)	Year Ago (3/2/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.33	0.60	0.24				
3-month LIBOR	0.48	0.53	0.31				
Bank CDs							
6-month	0.22	0.17	0.21				
1-year	0.34	0.21	0.29				
5-year	1.15	1.14	1.76				
U.S. Treasury Securities							
3-month	0.08	0.01	0.12				
6-month	0.13	0.05	0.15				
1-year	0.16	0.11	0.23				
5-year	0.86	0.95	2.17				
10-year	1.97	2.07	3.47				
10-year (inflation-protected)	-0.30	-0.01	0.90				
30-year	3.09	3.06	4.56				
30-year Zero	3.30	3.20	4.91				
Mortgage-Backed Securities							
GNMA 5.5%	1.38	1.35	2.75				
FHLMC 5.5% (Gold)	1.96	2.31	3.33				
FNMA 5.5%	1.98	2.09	3.24				
FNMA ARM	2.38	2.37	2.63				
Corporate Bonds							
Financial (10-year) A	3.68	4.58	4.75				
Industrial (25/30-year) A	4.26	4.42	5.56				
Utility (25/30-year) A	4.05	4.26	5.69				
Utility (25/30-year) Baa/BBB	4.53	4.94	6.08				
Foreign Bonds (10-Year)							
Canada	1.99	2.15	3.34				
Germany	1.82	2.28	3.20				
Japan	0.96	1.07	1.28				
United Kingdom	2.15	2.31	3.64				
Preferred Stocks							
Utility A	5.24	5.05	5.77				
Financial A	6.14	6.32	6.54				
Financial Adjustable A	5.53	5.53	5.53				



TAX-EXEMPT

Bond Buyer Indexes							
20-Bond Index (GOs)	3.69	4.07	4.95				
25-Bond Index (Revs)	4.75	5.06	5.57				
General Obligation Bonds (GOs)							
1-year Aaa	0.16	0.24	0.40				
1-year A	1.10	1.10	1.22				
5-year Aaa	0.71	1.20	1.82				
5-year A	2.00	2.30	2.76				
10-year Aaa	1.96	2.45	3.20				
10-year A	3.04	3.50	4.37				
25/30-year Aaa	3.56	3.99	4.72				
25/30-year A	4.99	5.36	6.25				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.45	4.62	5.18				
Electric AA	4.54	4.84	5.30				
Housing AA	4.87	5.54	6.28				
Hospital AA	4.63	4.92	5.59				
Toll Road Aaa	4.42	4.57	5.34				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	2/22/12	2/8/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1580856	1535738	45118	1515788	1533359	1509553
Borrowed Reserves	7992	8163	-171	8978	10163	13027
Net Free/Borrowed Reserves	1572864	1527575	45289	1506810	1523195	1496526

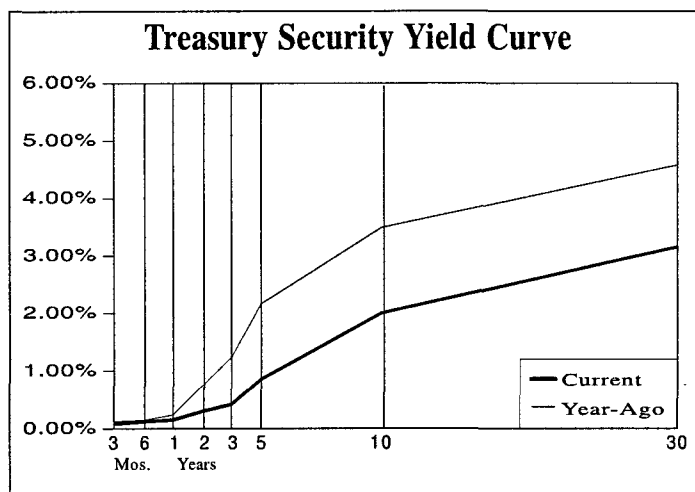
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	2/13/12	2/6/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2228.1	2225.3	2.9	17.5%	16.6%	19.1%
M2 (M1+savings+small time deposits)	9799.7	9771.8	27.9	8.5%	6.9%	10.1%

Selected Yields

	Recent (2/22/12)	3 Months Ago (11/22/11)	Year Ago (2/23/11)		Recent (2/22/12)	3 Months Ago (11/22/11)	Year Ago (2/23/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.26	0.44	0.23				
3-month LIBOR	0.49	0.50	0.31				
Bank CDs							
6-month	0.22	0.17	0.21				
1-year	0.34	0.21	0.29				
5-year	1.15	1.14	1.65				
U.S. Treasury Securities							
3-month	0.08	0.02	0.12				
6-month	0.12	0.06	0.15				
1-year	0.15	0.11	0.24				
5-year	0.86	0.87	2.17				
10-year	2.00	1.92	3.49				
10-year (inflation-protected)	-0.30	0.01	0.97				
30-year	3.15	2.88	4.58				
30-year Zero	3.37	3.05	4.94				
Mortgage-Backed Securities							
GNMA 5.5%	1.24	1.25	2.78				
FHLMC 5.5% (Gold)	1.94	2.33	3.36				
FNMA 5.5%	1.89	2.05	3.27				
FNMA ARM	2.37	2.43	2.66				
Corporate Bonds							
Financial (10-year) A	3.88	4.45	4.73				
Industrial (25/30-year) A	4.34	4.20	5.57				
Utility (25/30-year) A	4.13	4.06	5.66				
Utility (25/30-year) Baa/BBB	4.61	4.74	6.07				
Foreign Bonds (10-Year)							
Canada	2.06	2.08	3.33				
Germany	1.89	1.92	3.14				
Japan	0.98	0.97	1.26				
United Kingdom	2.11	2.17	3.67				
Preferred Stocks							
Utility A	5.14	5.84	5.79				
Financial A	6.07	6.31	6.07				
Financial Adjustable A	5.52	5.52	5.52				



TAX-EXEMPT

Bond Buyer Indexes							
20-Bond Index (GOs)	3.65	4.09	5.10				
25-Bond Index (Revs)	4.74	5.09	5.60				
General Obligation Bonds (GOs)							
1-year Aaa	0.17	0.24	0.37				
1-year A	1.10	1.06	1.21				
5-year Aaa	0.69	1.22	1.85				
5-year A	1.99	2.33	2.80				
10-year Aaa	1.95	2.48	3.36				
10-year A	2.96	3.53	4.43				
25/30-year Aaa	3.56	3.97	4.80				
25/30-year A	4.99	5.34	6.25				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.46	4.60	5.23				
Electric AA	4.55	4.82	5.37				
Housing AA	4.88	5.53	6.36				
Hospital AA	4.63	4.92	5.60				
Toll Road Aaa	4.42	4.58	5.38				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	2/8/12	1/25/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1535735	1509282	26453	1508873	1534868	1491465
Borrowed Reserves	8163	8517	-354	9346	10446	13571
Net Free/Borrowed Reserves	1527572	1500765	26807	1499527	1524422	1477894

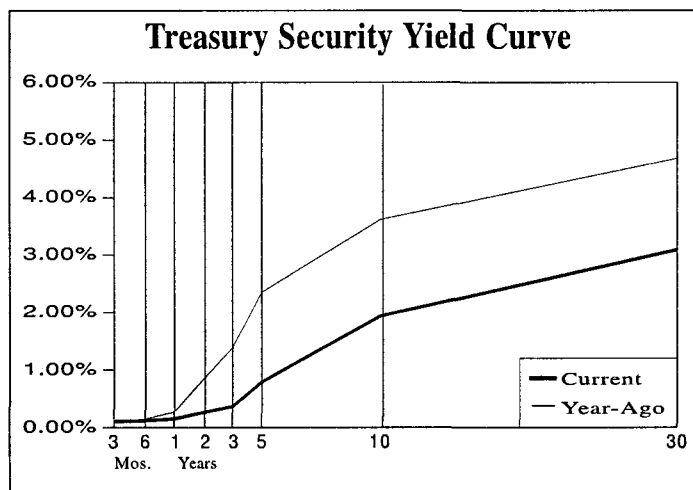
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	2/6/12	1/30/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2225.4	2225.6	-0.2	18.4%	19.7%	18.9%
M2 (M1+savings+small time deposits)	9772.3	9779.7	-7.4	7.9%	7.1%	10.0%

Selected Yields

	Recent (2/15/12)	3 Months Ago (11/16/11)	Year Ago (2/16/11)		Recent (2/15/12)	3 Months Ago (11/16/11)	Year Ago (2/16/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.29	0.47	0.31				
3-month LIBOR	0.50	0.47	0.31				
Bank CDs							
6-month	0.22	0.17	0.21				
1-year	0.35	0.21	0.29				
5-year	1.15	1.14	1.65				
U.S. Treasury Securities							
3-month	0.11	0.01	0.11				
6-month	0.12	0.04	0.15				
1-year	0.15	0.10	0.27				
5-year	0.79	0.87	2.35				
10-year	1.93	2.00	3.62				
10-year (inflation-protected)	-0.42	0.03	1.25				
30-year	3.09	3.00	4.68				
30-year Zero	3.32	3.21	5.01				
Mortgage-Backed Securities							
GNMA 5.5%	1.41	1.25	2.96				
FHLMC 5.5% (Gold)	1.79	2.35	3.51				
FNMA 5.5%	1.82	2.09	3.45				
FNMA ARM	2.37	2.43	2.66				
Corporate Bonds							
Financial (10-year) A	3.91	4.38	4.85				
Industrial (25/30-year) A	4.30	4.31	5.65				
Utility (25/30-year) A	4.10	4.17	5.77				
Utility (25/30-year) Baa/BBB	4.58	4.85	6.15				
Foreign Bonds (10-Year)							
Canada	2.01	2.10	3.50				
Germany	1.86	1.82	3.24				
Japan	0.97	0.95	1.36				
United Kingdom	2.08	2.16	3.81				
Preferred Stocks							
Utility A	5.61	5.26	5.79				
Financial A	6.07	6.30	6.07				
Financial Adjustable A	5.51	5.52	5.52				



TAX-EXEMPT

Bond Buyer Indexes							
20-Bond Index (GOs)	3.70	4.02	5.29				
25-Bond Index (Revs)	4.77	5.00	5.67				
General Obligation Bonds (GOs)							
1-year Aaa	0.17	0.24	0.38				
1-year A	1.09	1.07	1.16				
5-year Aaa	0.70	1.26	1.95				
5-year A	1.98	2.33	2.87				
10-year Aaa	1.95	2.50	3.52				
10-year A	2.95	3.51	4.52				
25/30-year Aaa	3.56	4.01	4.94				
25/30-year A	4.98	5.38	6.25				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.44	4.56	5.33				
Electric AA	4.53	4.89	5.48				
Housing AA	4.86	5.57	6.42				
Hospital AA	4.63	4.93	5.71				
Toll Road Aaa	4.47	4.57	5.46				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	2/8/12	1/25/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1535732	1509282	26450	1508872	1534868	1491464
Borrowed Reserves	8163	8517	-354	9346	10446	13571
Net Free/Borrowed Reserves	1527569	1500765	26804	1499526	1524422	1477894

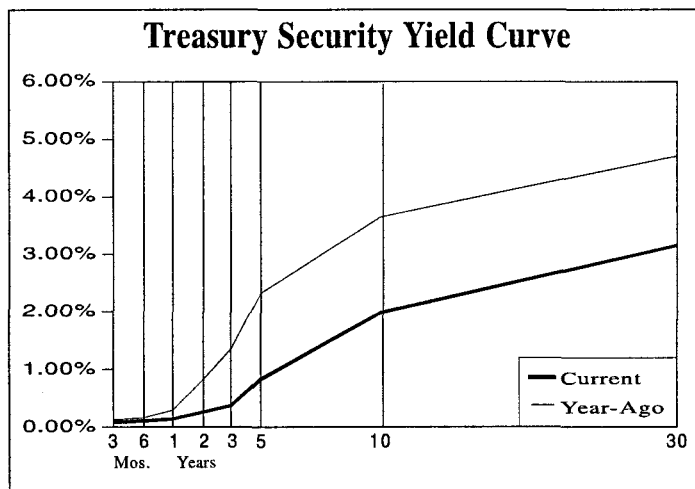
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	1/30/12	1/23/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2225.8	2219.8	6.0	17.7%	22.6%	19.1%
M2 (M1+savings+small time deposits)	9780.4	9768.3	12.1	8.9%	7.4%	10.1%

Selected Yields

	Recent (2/08/12)	3 Months Ago (11/09/11)	Year Ago (2/09/11)		Recent (2/08/12)	3 Months Ago (11/09/11)	Year Ago (2/09/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.23	0.49	0.31				
3-month LIBOR	0.51	0.45	0.31				
Bank CDs							
6-month	0.22	0.17	0.21				
1-year	0.34	0.21	0.29				
5-year	1.16	1.14	1.65				
U.S. Treasury Securities							
3-month	0.08	0.01	0.13				
6-month	0.11	0.03	0.16				
1-year	0.14	0.08	0.29				
5-year	0.83	0.87	2.33				
10-year	1.98	1.96	3.65				
10-year (inflation-protected)	-0.34	-0.05	1.20				
30-year	3.15	3.03	4.71				
30-year Zero	3.37	3.25	5.02				
Mortgage-Backed Securities							
GNMA 5.5%	1.23	1.37	3.17				
FHLMC 5.5% (Gold)	1.86	2.35	3.78				
FNMA 5.5%	1.76	2.03	3.68				
FNMA ARM	2.37	2.43	2.66				
Corporate Bonds							
Financial (10-year) A	4.01	4.09	4.94				
Industrial (25/30-year) A	4.39	4.23	5.67				
Utility (25/30-year) A	4.19	4.14	5.82				
Utility (25/30-year) Baa/BBB	4.67	4.83	6.22				
Foreign Bonds (10-Year)							
Canada	2.07	2.09	3.45				
Germany	1.98	1.72	3.31				
Japan	0.99	0.98	1.34				
United Kingdom	2.19	2.18	3.87				
Preferred Stocks							
Utility A	5.36	5.82	5.80				
Financial A	6.48	5.70	6.06				
Financial Adjustable A	5.51	5.51	5.51				



TAX-EXEMPT

Bond Buyer Indexes							
20-Bond Index (GOs)	3.60	4.02	5.25				
25-Bond Index (Revs)	4.70	5.05	5.63				
General Obligation Bonds (GOs)							
1-year Aaa	0.15	0.25	0.39				
1-year A	1.08	1.06	1.16				
5-year Aaa	0.71	1.27	1.96				
5-year A	1.97	2.33	2.87				
10-year Aaa	1.92	2.51	3.57				
10-year A	2.94	3.52	4.54				
25/30-year Aaa	3.56	4.01	4.97				
25/30-year A	4.97	5.35	6.26				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.43	4.56	5.35				
Electric AA	4.52	4.90	5.48				
Housing AA	4.85	5.58	6.44				
Hospital AA	4.64	4.92	5.71				
Toll Road Aaa	4.47	4.55	5.48				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	1/25/12	1/11/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1509282	1523788	-14506	1506034	1540014	1473142
Borrowed Reserves	8517	8985	-468	9751	10742	14198
Net Free/Borrowed Reserves	1500765	1514803	-14038	1496283	1529272	1458944

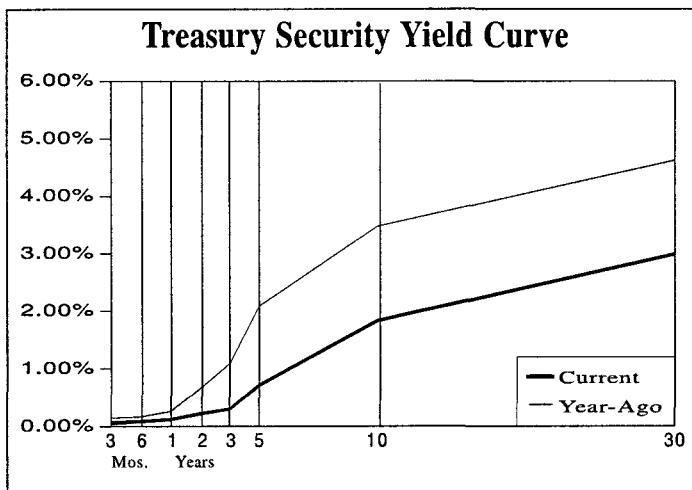
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	1/23/12	1/16/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2221.1	2202.7	18.4	15.9%	24.6%	19.2%
M2 (M1+savings+small time deposits)	9768.3	9763.8	4.5	9.5%	10.3%	10.3%

Selected Yields

	Recent (2/01/12)	3 Months Ago (11/02/11)	Year Ago (2/02/11)		Recent (2/01/12)	3 Months Ago (11/02/11)	Year Ago (2/02/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.32	0.51	0.25				
3-month LIBOR	0.54	0.43	0.31				
Bank CDs							
6-month	0.22	0.17	0.30				
1-year	0.34	0.21	0.48				
5-year	1.16	1.14	1.59				
U.S. Treasury Securities							
3-month	0.06	0.01	0.15				
6-month	0.09	0.04	0.17				
1-year	0.12	0.10	0.26				
5-year	0.72	0.88	2.09				
10-year	1.83	1.99	3.48				
10-year (inflation-protected)	-0.43	-0.10	1.02				
30-year	2.99	3.01	4.62				
30-year Zero	3.21	3.22	4.96				
Mortgage-Backed Securities							
GNMA 5.5%	1.20	1.62	3.06				
FHLMC 5.5% (Gold)	1.91	2.34	3.45				
FNMA 5.5%	1.91	2.10	3.27				
FNMA ARM	2.37	2.43	2.66				
Corporate Bonds							
Financial (10-year) A	3.99	4.15	4.86				
Industrial (25/30-year) A	4.26	4.18	5.63				
Utility (25/30-year) A	4.07	4.12	5.78				
Utility (25/30-year) Baa/BBB	4.55	4.76	6.18				
Foreign Bonds (10-Year)							
Canada	1.90	2.17	3.38				
Germany	1.85	1.83	3.26				
Japan	0.96	1.00	1.23				
United Kingdom	2.05	2.29	3.76				
Preferred Stocks							
Utility A	5.90	5.82	5.79				
Financial A	6.05	6.57	6.05				
Financial Adjustable A	5.50	5.50	5.50				



TAX-EXEMPT

Bond Buyer Indexes							
20-Bond Index (GOs)	3.68	4.12	5.25				
25-Bond Index (Revs)	4.71	5.10	5.61				
General Obligation Bonds (GOs)							
1-year Aaa	0.18	0.24	0.39				
1-year A	1.03	1.05	1.17				
5-year Aaa	0.79	1.28	1.90				
5-year A	1.91	2.35	2.82				
10-year Aaa	1.90	2.57	3.51				
10-year A	2.88	3.56	4.50				
25/30-year Aaa	3.53	4.03	4.92				
25/30-year A	4.92	5.37	6.24				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.41	4.55	5.33				
Electric AA	4.47	4.90	5.48				
Housing AA	4.83	5.59	6.41				
Hospital AA	4.62	4.94	5.69				
Toll Road Aaa	4.45	4.55	5.46				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	1/25/12	1/11/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1509281	1523788	-14507	1506034	1540014	1473142
Borrowed Reserves	8517	8985	-468	9751	10742	14198
Net Free/Borrowed Reserves	1500764	1514803	-14039	1496283	1529272	1458944

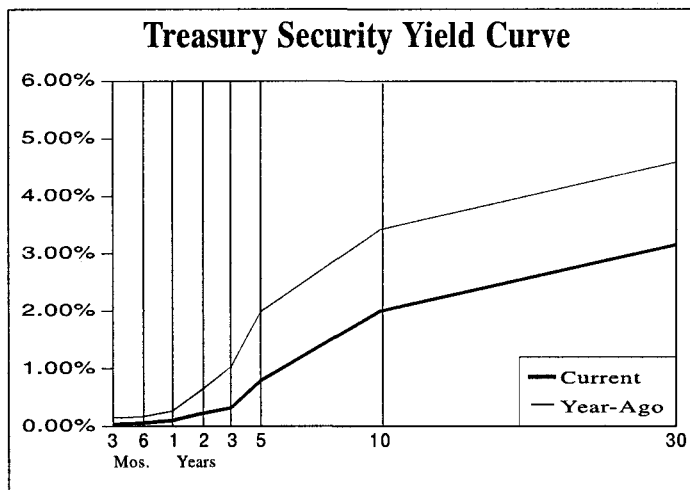
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	1/16/12	1/9/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2202.7	2189.1	13.6	12.5%	24.4%	18.5%
M2 (M1+savings+small time deposits)	9763.3	9755.2	8.1	9.3%	11.2%	10.0%

Selected Yields

	Recent (1/25/12)	3 Months Ago (10/26/11)	Year Ago (1/26/11)		Recent (1/25/12)	3 Months Ago (10/26/11)	Year Ago (1/26/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.32	0.49	0.27				
3-month LIBOR	0.56	0.42	0.30				
Bank CDs							
6-month	0.22	0.17	0.31				
1-year	0.34	0.21	0.49				
5-year	1.15	1.14	1.65				
U.S. Treasury Securities							
3-month	0.04	0.01	0.15				
6-month	0.06	0.06	0.17				
1-year	0.10	0.11	0.26				
5-year	0.79	1.06	1.99				
10-year	2.00	2.20	3.42				
10-year (inflation-protected)	-0.25	0.12	1.03				
30-year	3.15	3.22	4.59				
30-year Zero	3.35	3.43	4.93				
Mortgage-Backed Securities							
GNMA 5.5%	1.22	1.76	2.90				
FHLMC 5.5% (Gold)	2.11	2.39	3.19				
FNMA 5.5%	2.01	2.19	3.06				
FNMA ARM	2.35	2.47	2.72				
Corporate Bonds							
Financial (10-year) A	4.15	4.41	4.73				
Industrial (25/30-year) A	4.42	4.49	5.52				
Utility (25/30-year) A	4.47	4.41	5.64				
Utility (25/30-year) Baa/BBB	5.14	5.05	6.10				
Foreign Bonds (10-Year)							
Canada	2.04	2.38	3.31				
Germany	1.95	2.04	3.19				
Japan	1.01	1.00	1.24				
United Kingdom	2.16	2.47	3.69				
Preferred Stocks							
Utility A	5.39	5.21	5.79				
Financial A	6.09	6.49	6.52				
Financial Adjustable A	5.50	5.50	5.50				



TAX-EXEMPT

Bond Buyer Indexes							
20-Bond Index (GOs)	3.60	4.08	5.41				
25-Bond Index (Revs)	4.77	5.07	5.66				
General Obligation Bonds (GOs)							
1-year Aaa	0.18	0.29	0.41				
1-year A	1.13	1.00	1.28				
5-year Aaa	0.87	1.41	1.91				
5-year A	2.01	2.42	2.96				
10-year Aaa	2.00	2.69	3.60				
10-year A	2.98	3.60	4.49				
25/30-year Aaa	3.59	4.10	5.06				
25/30-year A	5.02	5.42	6.27				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.43	4.56	5.46				
Electric AA	4.50	4.94	5.57				
Housing AA	4.93	5.66	6.44				
Hospital AA	4.64	4.97	5.75				
Toll Road Aaa	4.48	4.57	5.60				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	1/11/12	12/28/11	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1523788	1471460	52328	1514963	1548942	1454626
Borrowed Reserves	8985	9328	-343	10151	11035	15534
Net Free/Borrowed Reserves	1514803	1462132	52671	1504812	1537907	1439092

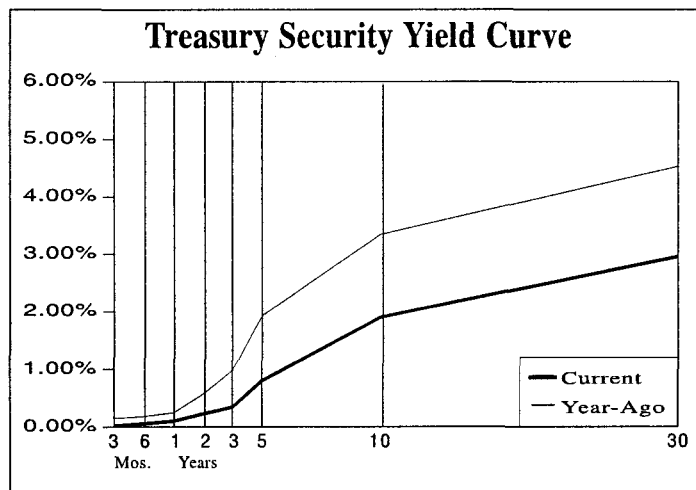
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	1/9/12	1/2/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2229.9	2203.4	26.5	14.1%	27.5%	22.6%
M2 (M1+savings+small time deposits)	9756.1	9733.8	22.3	5.7%	11.4%	10.7%

Selected Yields

	Recent (1/18/12)	3 Months Ago (10/19/11)	Year Ago (1/19/11)		Recent (1/18/12)	3 Months Ago (10/19/11)	Year Ago (1/19/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.32	0.44	0.27				
3-month LIBOR	0.56	0.41	0.30				
Bank CDs							
6-month	0.22	0.17	0.30				
1-year	0.34	0.21	0.48				
5-year	1.16	1.14	1.60				
U.S. Treasury Securities							
3-month	0.02	0.02	0.15				
6-month	0.06	0.05	0.18				
1-year	0.10	0.11	0.25				
5-year	0.80	1.04	1.93				
10-year	1.90	2.16	3.34				
10-year (inflation-protected)	-0.21	0.20	0.93				
30-year	2.96	3.18	4.53				
30-year Zero	3.14	3.38	4.87				
Mortgage-Backed Securities							
GNMA 5.5%	1.07	1.84	2.38				
FHLMC 5.5% (Gold)	1.94	2.36	3.03				
FNMA 5.5%	1.72	2.17	2.89				
FNMA ARM	2.35	2.47	2.72				
Corporate Bonds							
Financial (10-year) A	4.00	4.33	4.78				
Industrial (25/30-year) A	4.25	4.53	5.57				
Utility (25/30-year) A	4.33	4.40	5.72				
Utility (25/30-year) Baa/BBB	4.94	4.92	6.15				
Foreign Bonds (10-Year)							
Canada	1.96	2.33	3.24				
Germany	1.79	2.06	3.11				
Japan	0.97	1.02	1.27				
United Kingdom	1.96	2.47	3.64				
Preferred Stocks							
Utility A	4.95	5.25	5.79				
Financial A	6.18	6.69	6.04				
Financial Adjustable A	5.49	5.49	5.49				



TAX-EXEMPT

Bond Buyer Indexes							
20-Bond Index (GOs)	3.62	4.17	5.39				
25-Bond Index (Revs)	4.74	5.06	5.60				
General Obligation Bonds (GOs)							
1-year Aaa	0.17	0.25	0.39				
1-year A	1.02	1.08	1.32				
5-year Aaa	0.85	1.39	1.90				
5-year A	1.93	2.40	3.00				
10-year Aaa	1.93	2.69	3.58				
10-year A	2.91	3.67	4.54				
25/30-year Aaa	3.56	4.09	5.18				
25/30-year A	4.96	5.45	6.31				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.40	4.56	5.56				
Electric AA	4.54	4.94	5.57				
Housing AA	5.01	5.64	6.42				
Hospital AA	4.61	4.97	5.73				
Toll Road Aaa	4.48	4.57	5.63				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	1/11/12	12/28/11	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1523791	1471462	52329	1514978	1548950	1454630
Borrowed Reserves	8985	9328	-343	10151	11035	15534
Net Free/Borrowed Reserves	1514806	1462134	52672	1504828	1537915	1439096

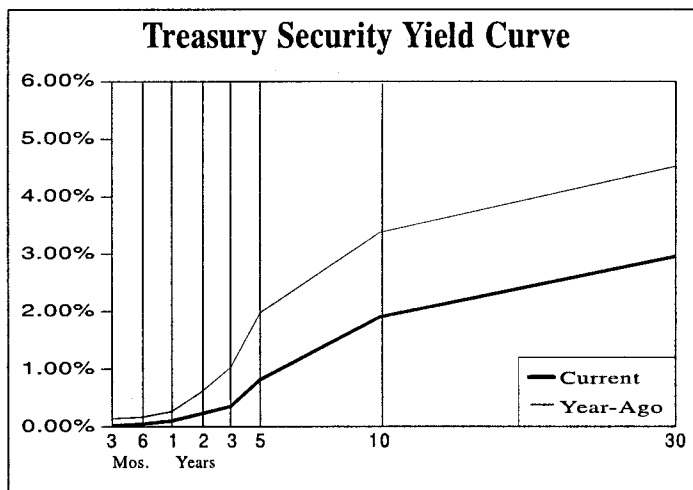
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	1/2/12	12/26/11	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2234.3	2167.9	66.4	6.8%	25.4%	22.2%
M2 (M1+savings+small time deposits)	9751.1	9665.5	85.6	6.2%	11.4%	10.8%

Selected Yields

	Recent (1/11/12)	3 Months Ago (10/12/11)	Year Ago (1/12/11)		Recent (1/11/12)	3 Months Ago (10/12/11)	Year Ago (1/12/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.25	0.38	0.27				
3-month LIBOR	0.58	0.40	0.30				
Bank CDs							
6-month	0.22	0.17	0.30				
1-year	0.34	0.21	0.48				
5-year	1.17	1.14	1.57				
U.S. Treasury Securities							
3-month	0.02	0.02	0.14				
6-month	0.05	0.04	0.17				
1-year	0.10	0.08	0.26				
5-year	0.82	1.15	1.98				
10-year	1.90	2.21	3.37				
10-year (inflation-protected)	-0.16	0.23	0.93				
30-year	2.96	3.20	4.53				
30-year Zero	3.15	3.39	4.86				
Mortgage-Backed Securities							
GNMA 5.5%	0.91	1.89	2.61				
FHLMC 5.5% (Gold)	1.91	2.32	3.14				
FNMA 5.5%	1.74	2.17	2.99				
FNMA ARM	2.35	2.47	2.72				
Corporate Bonds							
Financial (10-year) A	4.12	4.37	4.80				
Industrial (25/30-year) A	4.22	4.59	5.58				
Utility (25/30-year) A	4.17	4.53	5.77				
Utility (25/30-year) Baa/BBB	4.90	4.99	6.17				
Foreign Bonds (10-Year)							
Canada	1.94	2.35	3.26				
Germany	1.81	2.19	3.05				
Japan	0.97	1.00	1.18				
United Kingdom	2.01	2.64	3.64				
Preferred Stocks							
Utility A	4.94	5.57	5.79				
Financial A	6.27	6.81	6.03				
Financial Adjustable A	5.49	5.49	5.49				



TAX-EXEMPT

Bond Buyer Indexes							
20-Bond Index (GOs)	3.83	4.14	5.08				
25-Bond Index (Revs)	4.93	5.04	5.44				
General Obligation Bonds (GOs)							
1-year Aaa	0.17	0.26	0.41				
1-year A	1.00	1.11	1.28				
5-year Aaa	0.89	1.41	1.79				
5-year A	1.98	2.43	2.92				
10-year Aaa	1.99	2.63	3.38				
10-year A	3.03	3.75	4.38				
25/30-year Aaa	3.70	4.12	4.94				
25/30-year A	5.12	5.50	5.97				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.49	4.59	5.31				
Electric AA	4.63	4.97	5.30				
Housing AA	5.10	5.63	6.13				
Hospital AA	4.72	5.00	5.43				
Toll Road Aaa	4.53	4.60	5.35				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	12/28/11	12/14/11	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1471463	1528581	-57118	1517529	1552068	1434904
Borrowed Reserves	9328	9841	-513	10500	11327	16880
Net Free/Borrowed Reserves	1462135	1518740	-56605	1507029	1540742	1418024

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	12/26/11	12/19/11	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2167.8	2137.1	30.7	3.8%	24.0%	17.9%
M2 (M1+savings+small time deposits)	9664.8	9666.7	-1.9	3.3%	11.6%	9.4%

PIMA UTILITY COMPANY

DOCKET NO. W-02199A-11-0329 et al.

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WAR - 2	DCF COST OF EQUITY CAPITAL
WAR - 3	DIVIDEND YIELD CALCULATION
WAR - 4	DIVIDEND GROWTH RATE CALCULATION
WAR - 5	DIVIDEND GROWTH COMPONENTS
WAR - 6	GROWTH RATE COMPARISON
WAR - 7	CAPM COST OF EQUITY CAPITAL
WAR - 8	ECONOMIC INDICATORS - 1990 TO PRESENT
WAR - 9	ECONOMIC INDICATORS - 1990 TO PRESENT

PIMA UTILITY COMPANY

TEST YEAR ENDED DECEMBER 31, 2010

COST OF CAPITAL SUMMARY

DOCKET NO. W-02199A-11-0329 et al.

SCHEDULE WAR - 1

PAGE 1 OF 3

WEIGHTED AVERAGE COST OF CAPITAL - WATER AND WASTEWATER DIVISIONS

LINE NO.	DESCRIPTION	(A) CAPITALIZATION PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED CAPITALIZATION	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	Long-Term Debt	\$ 6,125,000	\$ -	\$ 6,125,000	22.53%	7.696%	1.73%
2	Common Equity	21,063,072	-	21,063,072	77.47%	9.400%	7.28%
3	Total Capitalization	\$ 27,188,072	\$ -	\$ 27,188,072	100.00%		

4 WEIGHTED AVERAGE COST OF CAPITAL

9.01%

REFERENCES:

COLUMN (A): TESTIMONY, WAR
COLUMN (B): LINE 1; SCHEDULE WAR-1, PAGE 2, LINE 2; TESTIMONY WAR
COLUMN (C): COLUMN (A) x COLUMN (B), LINE 4; LINE 1 + LINE 2
COLUMN (D): COLUMN (C) LINES 1, 2 AND 3 / LINE 4
COLUMN (E): LINE 1; SCHEDULE WAR-1, PAGE 2, LINES 2 AND 3; TESTIMONY WAR
COLUMN (F): COLUMN (D) x COLUMN (E)

PIMA UTILITY COMPANY

TEST YEAR ENDED DECEMBER 31, 2010

COST OF CAPITAL SUMMARY

DOCKET NO. W-02199A-11-0329 et al.
SCHEDULE WAR - 1
PAGE 2 OF 3

COST OF LONG-TERM DEBT

LINE NO.	LONG-TERM DEBT ISSUANCES	(A) AMOUNT OUTSTANDING	(B) ANNUAL COST	(C) INTEREST RATE
1	IDA BONDS - MARICOPA COUNTY	\$ 6,125,000	\$ 471,380	7.696%
2	TOTALS	\$ 6,125,000	\$ 471,380	7.696%

REFERENCES:

COLUMN (A): COMPANY SCHEDULE D-2, PAGE 1

COLUMN (B): COMPANY SCHEDULE D-2, PAGE 1

COLUMN (C): COLUMN (B) / COLUMN (A)

COST OF COMMON EQUITY CALCULATION

LINE NO.			
1	<u>DCF METHODOLOGY</u>		
2	DCF - WATER COMPANY SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	8.44%	SCHEDULE WAR-2, COLUMN (C), LINE 5
3	DCF - NATURAL GAS LDC SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	9.44%	SCHEDULE WAR-2, COLUMN (C), LINE 13
4	AVERAGE OF DCF ESTIMATES	8.94%	(LINE 2 + LINE 3) ÷ 2
5	<u>CAPM METHODOLOGY</u>		
6	CAPM - WATER COMPANY GEOMETRIC MEAN ESTIMATE	4.00%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 5
7	CAPM - NATURAL GAS LDC GEOMETRIC MEAN ESTIMATE	3.83%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 13
8	CAPM - WATER COMPANY ARITHMETIC MEAN ESTIMATE	5.35%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 5
9	CAPM - NATURAL GAS LDC ARITHMETIC MEAN ESTIMATE	5.11%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 13
10	AVERAGE OF CAPM ESTIMATES	4.58%	(SUM OF LINES 6 THRU 9) ÷ 4
11	AVERAGE OF DCF AND CAPM ESTIMATES	6.76%	(SUM OF LINES 4 AND 10) ÷ 2
12	FINAL COST OF COMMON EQUITY ESTIMATE	9.40%	TESTIMONY WAR

PIMA UTILITY COMPANY
DOCKET NO. W-02199A-11-0329 et al.
DCF COST OF EQUITY CAPITAL

DOCKET NO. W-02199A-11-0329 et al.
SCHEDULE WAR - 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) DIVIDEND YIELD	+	(B) GROWTH RATE (g)	=	(C) DCF COST OF EQUITY CAPITAL
1	AWR	AMERICAN STATES WATER CO.	3.06%	+	6.04%	=	9.10%
2	CWT	CALIFORNIA WATER SERVICE GROUP	3.34%	+	5.62%	=	8.96%
3	MSEX	MIDDLESEX WATER COMPANY	3.97%	+	4.36%	=	8.33%
4	SJW	SJW CORPORATION	2.90%	+	3.90%	=	6.81%
5	WTR	AQUA AMERICA, INC.	3.00%	+	6.01%	=	9.01%
6		WATER COMPANY AVERAGE					8.44%
7	GAS	AGL RESOURCES, INC.	4.51%	+	6.12%	=	10.63%
8	ATO	ATMOS ENERGY CORP.	4.36%	+	3.79%	=	8.15%
9	LG	LACLEDE GROUP, INC.	4.04%	+	4.76%	=	8.80%
10	NJR	NEW JERSEY RESOURCES CORPORATION	3.20%	+	7.01%	=	10.21%
11	NWN	NORTHWEST NATURAL GAS CO.	3.76%	+	4.87%	=	8.63%
12	PNY	PIEDMONT NATURAL GAS COMPANY	3.51%	+	3.71%	=	7.22%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	2.72%	+	10.53%	=	13.25%
14	SWX	SOUTHWEST GAS CORPORATION	2.80%	+	7.58%	=	10.38%
15	WGL	WGL HOLDINGS, INC.	3.71%	+	3.96%	=	7.67%
16		NATURAL GAS LDC AVERAGE					9.44%

REFERENCES:
COLUMN (A): SCHEDULE WAR - 3, COLUMN C
COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

PIMA UTILITY COMPANY
TEST YEAR ENDED DECEMBER 31, 2010
DIVIDEND YIELD CALCULATION

DOCKET NO. W-02199A-11-0329 et al.
SCHEDULE WAR - 3

LINE NO.	STOCK SYMBOL	COMPANY	(A) ESTIMATED DIVIDEND (PER SHARE)	(B) AVERAGE STOCK PRICE (PER SHARE)	(C) DIVIDEND YIELD
1	AWR	AMERICAN STATES WATER CO.	\$1.12 /	\$36.63 =	3.06%
2	CWT	CALIFORNIA WATER SERVICE GROUP	\$0.62 /	\$18.43 =	3.34%
3	MSEX	MIDDLESEX WATER COMPANY	\$0.74 /	\$18.65 =	3.97%
4	SJW	SJW CORPORATION	\$0.69 /	\$23.83	2.90%
5	WTR	AQUA AMERICA, INC.	\$0.66 /	\$22.01 =	3.00%
6		WATER COMPANY AVERAGE			3.25%
7	GAS	AGL RESOURCES, INC.	\$1.84 /	\$40.79 =	4.51%
8	ATO	ATMOS ENERGY CORP.	\$1.38 /	\$31.66 =	4.36%
9	LG	LACLEDE GROUP, INC.	\$1.66 /	\$41.09 =	4.04%
10	NJR	NEW JERSEY RESOURCES CORPORATION	\$1.52 /	\$47.51 =	3.20%
11	NWN	NORTHWEST NATURAL GAS CO.	\$1.78 /	\$47.33 =	3.76%
12	PNY	PIEDMONT NATURAL GAS COMPANY	\$1.16 /	\$33.04 =	3.51%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	\$1.46 /	\$53.61 =	2.72%
14	SWX	SOUTHWEST GAS CORPORATION	\$1.18 /	\$42.19 =	2.80%
15	WGL	WGL HOLDINGS, INC.	\$1.56 /	\$42.05 =	3.71%
16		NATURAL GAS LDC AVERAGE			3.62%

REFERENCES:

COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/20/2012 (WATER COMPANIES) AND 03/09/2012 (NATURAL GAS LDC's).
COLUMN (B): EIGHT WEEK AVERAGE OF ADJUSTED CLOSING PRICES FROM 01/17/2012 TO 03/09/2012
COLUMN (C): CLOSING STOCK PRICES OBTAINED THROUGH YAHOO! FINANCE WEB SITE - HISTORICAL QUOTES (<http://finance.yahoo.com>).

NOTE:

CLOSING STOCK PRICES ARE ADJUSTED FOR DIVIDENDS AND STOCK SPLITS.

PIMA UTILITY COMPANY
TEST YEAR ENDED DECEMBER 31, 2010
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-02199A-11-0329 et al.
SCHEDULE WAR - 4
PAGE 1 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	AWR	AMERICAN STATES WATER CO.	5.70%	+	0.34%	=	6.04%
2	CWT	CALIFORNIA WATER SERVICE GROUP	4.70%	+	0.92%	=	5.62%
3	MSEX	MIDDLESEX WATER COMPANY	3.70%	+	0.66%	=	4.36%
4	SJW	SJW CORPORATION	2.50%	+	1.40%	=	3.90%
5	WTR	AQUA AMERICA, INC.	5.50%	+	0.51%	=	6.01%
6		WATER COMPANY AVERAGE					5.19%
7	GAS	AGL RESOURCES, INC.	6.00%	+	0.12%	=	6.12%
8	ATO	ATMOS ENERGY CORP.	3.60%	+	0.19%	=	3.79%
9	LG	LACLEDE GROUP, INC.	4.00%	+	0.76%	=	4.76%
10	NJR	NEW JERSEY RESOURCES CORPORATION	7.00%	+	0.01%	=	7.01%
11	NWN	NORTHWEST NATURAL GAS CO.	4.80%	+	0.07%	=	4.87%
12	PNY	PIEDMONT NATURAL GAS COMPANY	3.70%	+	0.01%	=	3.71%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	8.25%	+	2.28%	=	10.53%
14	SWX	SOUTHWEST GAS CORPORATION	7.00%	+	0.58%	=	7.58%
15	WGL	WGL HOLDINGS, INC.	3.75%	+	0.21%	=	3.96%
16		NATURAL GAS LDC AVERAGE					5.81%

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

PIMA UTILITY COMPANY
TEST YEAR ENDED DECEMBER 31, 2010
DIVIDEND GROWTH RATE CALCULATION

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PAGE 2 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) SHARE GROWTH	(B) $x \left\{ \left[\left(\frac{M \div B}{1} \right) + 1 \right] / 2 \right\} - 1 \}$	(C) EXTERNAL GROWTH (sv)
1	AWR	AMERICAN STATES WATER CO.	1.00%	$x \left\{ \left[\left(\frac{1.68}{1} \right) + 1 \right] / 2 \right\} - 1 \}$	= 0.34%
2	CWT	CALIFORNIA WATER SERVICE GROUP	2.70%	$x \left\{ \left[\left(\frac{1.68}{1} \right) + 1 \right] / 2 \right\} - 1 \}$	= 0.92%
3	MSEX	MIDDLESEX WATER COMPANY	1.80%	$x \left\{ \left[\left(\frac{1.74}{1} \right) + 1 \right] / 2 \right\} - 1 \}$	= 0.66%
4	SJW	SJW CORPORATION	4.00%	$x \left\{ \left[\left(\frac{1.70}{1} \right) + 1 \right] / 2 \right\} - 1 \}$	= 1.40%
5	WTR	AQUA AMERICA, INC.	0.70%	$x \left\{ \left[\left(\frac{2.46}{1} \right) + 1 \right] / 2 \right\} - 1 \}$	= 0.51%
6	WATER COMPANY AVERAGE				0.77%
7	GAS	AGL RESOURCES, INC.	0.65%	$x \left\{ \left[\left(\frac{1.38}{1} \right) + 1 \right] / 2 \right\} - 1 \}$	= 0.12%
8	ATO	ATMOS ENERGY CORP.	2.60%	$x \left\{ \left[\left(\frac{1.15}{1} \right) + 1 \right] / 2 \right\} - 1 \}$	= 0.19%
9	LG	LACLEDE GROUP, INC.	3.00%	$x \left\{ \left[\left(\frac{1.51}{1} \right) + 1 \right] / 2 \right\} - 1 \}$	= 0.76%
10	NJR	NEW JERSEY RESOURCES CORPORATION	0.01%	$x \left\{ \left[\left(\frac{2.60}{1} \right) + 1 \right] / 2 \right\} - 1 \}$	= 0.01%
11	NWN	NORTHWEST NATURAL GAS CO.	0.20%	$x \left\{ \left[\left(\frac{1.68}{1} \right) + 1 \right] / 2 \right\} - 1 \}$	= 0.07%
12	PNY	PIEDMONT NATURAL GAS COMPANY	0.01%	$x \left\{ \left[\left(\frac{2.37}{1} \right) + 1 \right] / 2 \right\} - 1 \}$	= 0.01%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	3.00%	$x \left\{ \left[\left(\frac{2.52}{1} \right) + 1 \right] / 2 \right\} - 1 \}$	= 2.28%
14	SWX	SOUTHWEST GAS CORPORATION	2.20%	$x \left\{ \left[\left(\frac{1.53}{1} \right) + 1 \right] / 2 \right\} - 1 \}$	= 0.58%
15	WGL	WGL HOLDINGS, INC.	0.60%	$x \left\{ \left[\left(\frac{1.71}{1} \right) + 1 \right] / 2 \right\} - 1 \}$	= 0.21%
16	NATURAL GAS LDC AVERAGE				0.47%

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 01/20/2012 (WATER COMPANIES) AND 03/09/2012 (NATURAL GAS LDC's)
COLUMN (C): COLUMN (A) x COLUMN (B)

PIMA UTILITY COMPANY
TEST YEAR ENDED DECEMBER 31, 2010
DIVIDEND GROWTH COMPONENTS

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LINE NO.	STOCK SYMBOL	WATER COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (f) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	AWR	AMERICAN STATES WATER CO.	2006	0.3158	8.10%	2.56%	16.64	17.05	
2			2007	0.4074	9.30%	3.79%	17.53	17.23	
3			2008	0.3548	8.60%	3.05%	17.30	17.30	
4			2009	0.3765	8.20%	3.09%	19.39	18.53	
5			2010	0.5315	11.00%	5.85%	20.26	18.63	
6			GROWTH 2006 - 2010			3.67%	5.00%		2.24%
7			2011	0.5111	10.50%	5.37%		18.75	0.64%
8			2012	0.4957	10.50%	5.20%		19.00	0.99%
9			2014-16	0.4923	11.50%	5.66%	0.50%	19.50	0.92%
10									
11	CWT	CALIFORNIA WATER SERVICE GROUP	2006	0.1418	6.80%	0.96%	18.15	20.66	
12			2007	0.2267	8.10%	1.84%	18.50	20.67	
13			2008	0.3842	9.90%	3.80%	19.44	20.72	
14			2009	0.3980	9.60%	3.82%	10.13	41.53	
15			2010	0.3407	8.60%	2.93%	10.45	41.67	
16			GROWTH 2006 - 2010			2.67%	5.50%		19.17%
17			2011	0.3861	9.50%	3.67%		42.00	0.79%
18			2012	0.4182	9.50%	3.97%	3.50%	45.00	3.92%
19			2014-16	0.4462	10.50%	4.68%		47.50	2.65%
20									
21	MSEX	MIDDLESEX WATER COMPANY	2006	0.1707	7.80%	1.33%	9.52	13.17	
22			2007	0.2069	8.70%	1.80%	10.05	13.25	
23			2008	0.2135	8.90%	1.90%	10.03	13.40	
24			2009	0.0139	7.00%	0.10%	10.33	13.52	
25			2010	0.2500	8.20%	2.05%	11.13	15.57	
26			GROWTH 2006 - 2010			1.44%	5.50%		4.27%
27			2011	0.1889	8.50%	1.61%		15.70	0.83%
28			2012	0.2600	9.00%	2.34%	1.00%	16.00	1.37%
29			2014-16	0.3333	11.00%	3.67%		17.00	1.77%
30									
31	SJW	SJW CORPORATION	2006	0.5210	9.70%	5.05%	12.48	18.28	
32			2007	0.4135	8.20%	3.39%	12.90	18.36	
33			2008	0.3981	8.00%	3.19%	13.99	18.18	
34			2009	0.1852	6.00%	1.11%	13.66	18.50	
35			2010	0.1905	6.10%	1.16%	13.75	18.55	
36			GROWTH 2006 - 2010			2.78%	6.50%		0.37%
37			2011	0.2159	6.50%	1.40%		18.60	0.27%
38			2012	0.2600	6.00%	1.56%	3.50%	21.00	6.40%
39			2014-16	0.3385	7.50%	2.54%		22.50	3.94%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY

- RATINGS & REPORTS DATED 01/20/2012

COLUMN (C): COLUMN (A) x COLUMN (B)

COLUMN (D): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2006 - 2010

COLUMN (D): VALUE LINE INVESTMENT SURVEY

COLUMN (E): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE

COLUMN (E): VALUE LINE INVESTMENT SURVEY

COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (i) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	WTR	AQUA AMERICA, INC.	2006	0.3714	10.00%	3.71%	6.96	132.33	
2			2007	0.3239	10.00%	3.24%	7.32	133.40	
3			2008	0.3014	9.30%	2.80%	7.82	135.37	
4			2009	0.2857	9.40%	2.69%	8.12	136.49	
5			2010	0.3444	10.60%	3.65%	8.51	137.97	
6			GROWTH 2006 - 2010			3.22%	7.00%		1.05%
7			2011	0.4000	11.50%	4.60%		138.90	0.67%
8			2012	0.4000	11.50%	4.60%		139.90	0.70%
9			2014-16	0.4429	12.50%	5.54%	5.00%	142.90	0.70%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 01/20/2012
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (D): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2006 - 2010

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (E): LINE 6, COMPOUND GROWTH RATE
COLUMN (F): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

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LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (i)	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	GAS	AGL RESOURCES, INC.	2007	0.3971	12.70%	5.04%	21.74	76.40	
2			2008	0.3801	12.60%	4.79%	21.48	76.90	
3			2009	0.4028	12.50%	5.03%	22.95	77.54	
4			2010	0.4133	12.90%	5.33%	23.24	78.00	
5			2011	0.1038	5.20%	0.54%	28.54	117.00	
6			GROWTH 2007 - 2011			4.15%	5.50%		11.24%
7			2012	0.4338	11.00%	4.77%		118.00	0.85%
8			2013	0.4551	11.00%	5.01%		119.00	0.85%
9			2015-17	0.5122	12.00%	6.15%	6.00%	121.00	0.67%
10									
11	ATO	ATMOS ENERGY CORP.	2007	0.3402	8.70%	2.96%	22.01	89.33	
12			2008	0.3500	8.80%	3.08%	22.60	90.81	
13			2009	0.3299	8.30%	2.74%	23.52	92.55	
14			2010	0.3796	9.20%	3.49%	24.16	90.16	
15			2011	0.3982	8.80%	3.50%	24.98	90.30	
16			GROWTH 2007 - 2011			3.16%	4.50%		0.27%
17			2012	0.4000	8.50%	3.40%		90.50	0.22%
18			2013	0.4167	8.00%	3.33%		91.00	0.39%
19			2015-17	0.4519	8.00%	3.61%	6.00%	103.00	2.67%
20									
21	LG	LACLEDE GROUP, INC.	2007	0.3723	11.60%	4.32%	19.79	21.65	
22			2008	0.4356	11.80%	5.14%	22.12	21.99	
23			2009	0.4760	12.40%	5.90%	23.32	22.17	
24			2010	0.3539	10.10%	3.57%	24.02	22.29	
25			2011	0.4371	11.10%	4.85%	25.56	22.43	
26			GROWTH 2007 - 2011			4.76%	6.50%		0.89%
27			2012	0.3889	10.00%	3.89%		22.50	0.31%
28			2013	0.3964	10.00%	3.96%		23.00	1.26%
29			2015-17	0.4098	10.00%	4.10%	4.50%	26.00	3.00%
30									
31	NJR	NEW JERSEY RESOURCES CORPORATION	2007	0.3484	10.10%	3.52%	15.50	41.61	
32			2008	0.5889	15.70%	9.25%	17.28	42.06	
33			2009	0.4833	14.60%	7.06%	16.59	41.59	
34			2010	0.4472	14.00%	6.26%	17.62	41.17	
35			2011	0.4419	13.70%	6.05%	18.73	41.45	
36			GROWTH 2007 - 2011			6.43%	7.50%		-0.10%
37			2012	0.4667	16.00%	7.47%		40.00	-3.50%
38			2013	0.5175	16.50%	8.54%		40.00	-1.76%
39			2015-17	0.5130	14.00%	7.18%	5.50%	40.00	-0.71%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 03/09/2012
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (D): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2007 - 2011

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

PIMA UTILITY COMPANY
TEST YEAR ENDED DECEMBER 31, 2010
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LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (r) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	NWN	NORTHWEST NATURAL GAS CO.	2007	0.4783	12.50%	5.98%	22.52	26.41	
2			2008	0.4086	10.90%	4.45%	23.71	26.50	
3			2009	0.4346	11.40%	4.95%	24.88	26.53	
4			2010	0.3846	10.50%	4.04%	26.58	26.58	
5			2011	0.2678	8.90%	2.38%	26.74	26.72	
6			GROWTH 2007 - 2011			4.36%	4.00%		0.29%
7			2012	0.3283	9.50%	3.12%		26.75	0.11%
8			2013	0.3831	10.00%	3.83%		26.80	0.15%
9			2015-17	0.4611	10.50%	4.84%	4.50%	26.95	0.17%
10									
11	PNY	PIEDMONT NATURAL GAS COMPANY	2007	0.2929	11.90%	3.49%	11.99	73.23	
12			2008	0.3087	12.40%	3.83%	12.11	73.26	
13			2009	0.3593	13.20%	4.74%	12.67	73.27	
14			2010	0.2839	11.60%	3.29%	13.35	72.28	
15			2011	0.2675	11.40%	3.05%	13.79	72.32	
16			GROWTH 2007 - 2011			3.68%	3.00%		-0.31%
17			2012	0.2788	12.00%	3.35%		71.00	-1.83%
18			2013	0.2765	12.00%	3.32%		70.00	-1.82%
19			2015-17	0.2895	13.00%	3.76%	2.00%	68.00	-1.22%
20									
21	SJI	SOUTH JERSEY INDUSTRIES, INC.	2007	0.5167	12.80%	6.61%	16.25	29.61	
22			2008	0.5110	13.10%	6.69%	17.33	29.73	
23			2009	0.4874	13.10%	6.38%	18.24	29.80	
24			2010	0.4963	14.20%	7.05%	19.08	29.87	
25			2011	0.4810	14.30%	6.88%	20.66	30.21	
26			GROWTH 2007 - 2011			6.72%	8.00%		0.50%
27			2012	0.4875	15.00%	7.31%		31.00	2.62%
28			2013	0.4857	15.50%	7.53%		32.00	2.92%
29			2015-17	0.5000	17.00%	8.50%	5.00%	35.00	2.99%
30									
31	SWX	SOUTHWEST GAS CORPORATION	2007	0.5590	8.50%	4.75%	22.98	42.81	
32			2008	0.3525	5.90%	2.08%	23.49	44.19	
33			2009	0.5103	7.90%	4.03%	24.44	45.09	
34			2010	0.5595	8.90%	4.98%	25.62	45.56	
35			2011	0.5638	9.20%	5.19%	26.68	45.96	
36			GROWTH 2007 - 2011			4.21%	5.50%		1.79%
37			2012	0.5547	9.50%	5.27%		47.00	2.26%
38			2013	0.5517	10.00%	5.52%		48.00	2.20%
39			2015-17	0.5789	12.00%	6.95%	4.50%	51.00	2.10%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 03/09/2012
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (D): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2007 - 2011

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (E): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE
COLUMN (F): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

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LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (i)	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	WGL	WGL HOLDINGS, INC.	2007	0.3445	10.40%	3.58%	19.83	49.45	
2			2008	0.4221	10.40%	4.39%	20.99	49.92	
3			2009	0.4190	11.60%	4.86%	21.89	50.14	
4			2010	0.3392	9.90%	3.36%	22.82	50.54	
5			2011	0.3111	9.50%	2.96%	23.49	51.20	
6			GROWTH 2007 - 2011			3.83%	5.00%		0.87%
7			2012	0.3640	10.00%	3.64%		51.50	0.59%
8			2013	0.3608	10.00%	3.61%		51.75	0.54%
9			2015-17	0.3750	10.00%	3.75%		52.00	0.31%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 03/09/2012
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2007 - 2011

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINE 6, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

WATER COMPANY SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED		(D) VALUE LINE HISTORIC		(E) VALUE LINE & ZACKS AVGS.		(F) 5 - YEAR COMPOUND HISTORY	
		EPS		DPS	BVPS	EPS	DPS	BVPS		EPS	DPS
1	AWR	6.04%	12.00%	4.50%	0.50%	11.50%	2.50%	5.00%	6.07%	13.66%	3.39%
2	CWT	5.62%	10.00%	3.50%	3.50%	6.50%	1.00%	5.50%	5.07%	-9.22%	-15.01%
3	MSEX	4.36%	-	2.00%	1.00%	4.50%	1.50%	5.50%	3.42%	4.02%	1.44%
4	SIJ	3.90%	-	4.50%	3.50%	-1.50%	5.50%	6.50%	4.08%	-8.34%	4.51%
5	WTR	6.01%	8.30%	6.00%	5.00%	4.50%	8.00%	7.00%	6.97%	6.48%	7.61%
6				6.80%	2.70%	5.10%	3.70%	5.90%		1.32%	0.39%
7	AVERAGES	5.19%	10.10%	4.53%			4.90%		5.12%		0.82%

NATURAL GAS LDC SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED		(D) VALUE LINE HISTORIC		(E) VALUE LINE & ZACKS AVGS.		(F) 5 - YEAR COMPOUND HISTORY	
		EPS		DPS	BVPS	EPS	DPS	BVPS		EPS	DPS
1	GAS	6.12%	4.30%	2.00%	6.00%	4.50%	7.50%	5.50%	5.04%	-6.04%	3.75%
2	ATO	3.79%	4.70%	1.50%	6.00%	4.00%	1.50%	4.50%	3.74%	3.89%	1.53%
3	LG	4.76%	3.00%	2.50%	4.50%	6.00%	2.50%	6.50%	3.86%	5.48%	2.65%
4	NJR	7.01%	4.50%	4.00%	5.50%	7.00%	8.00%	7.50%	6.00%	13.59%	9.27%
5	NWN	4.87%	4.30%	3.00%	4.50%	7.00%	4.50%	4.00%	4.47%	-3.53%	5.00%
6	PNY	3.71%	4.70%	3.00%	2.00%	4.50%	4.00%	3.00%	3.39%	2.91%	3.82%
7	SJI	10.53%	6.00%	9.00%	5.00%	9.50%	8.50%	8.00%	7.86%	8.44%	10.39%
8	SWX	7.58%	5.30%	8.00%	4.50%	6.50%	3.00%	5.50%	6.04%	5.66%	5.37%
9	WGL	3.96%	5.20%	2.50%	4.00%	3.00%	2.50%	5.00%	3.60%	1.86%	3.13%
10				3.94%	4.67%	5.78%	4.67%	5.50%		3.58%	4.89%
11	AVERAGES	5.81%	4.67%	4.54%			5.31%		4.89%		4.49%

REFERENCES:

COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/20/2012 (WATER COMPANIES) AND 03/09/2012 (NATURAL GAS LDCs)
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/20/2012 (WATER COMPANIES) AND 03/09/2012 (NATURAL GAS LDCs)
COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1 THRU 3 (WATER) AND 1 THRU 9 (NATURAL GAS)
COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 01/20/2012 (WATER COMPANIES) AND 03/09/2012 (NATURAL GAS LDCs)

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	(A)				(B)
		k	=	r _f	+ [β x (r _m - r _f)]	EXPECTED RETURN
1	AWR	k	=	0.81%	+ [0.70 x (9.90% - 5.40%)]	= 3.96%
2	CWT	k	=	0.81%	+ [0.65 x (9.90% - 5.40%)]	= 3.73%
3	MSEX	k	=	0.81%	+ [0.70 x (9.90% - 5.40%)]	= 3.96%
4	SIW	k	=	0.81%	+ [0.85 x (9.90% - 5.40%)]	= 4.63%
5	WTR	k	=	0.81%	+ [0.65 x (9.90% - 5.40%)]	= 3.73%
6	WATER COMPANY AVERAGE				<u>0.71</u>	<u>4.00%</u>
7	GAS	k	=	0.81%	+ [0.75 x (9.90% - 5.40%)]	= 4.18%
8	ATO	k	=	0.81%	+ [0.70 x (9.90% - 5.40%)]	= 3.96%
9	LG	k	=	0.81%	+ [0.60 x (9.90% - 5.40%)]	= 3.51%
10	NJR	k	=	0.81%	+ [0.65 x (9.90% - 5.40%)]	= 3.73%
11	NWN	k	=	0.81%	+ [0.60 x (9.90% - 5.40%)]	= 3.51%
12	PNY	k	=	0.81%	+ [0.70 x (9.90% - 5.40%)]	= 3.96%
13	SJI	k	=	0.81%	+ [0.65 x (9.90% - 5.40%)]	= 3.73%
14	SWX	k	=	0.81%	+ [0.75 x (9.90% - 5.40%)]	= 4.18%
15	WGL	k	=	0.81%	+ [0.65 x (9.90% - 5.40%)]	= 3.73%
16	NATURAL GAS LDC AVERAGE				<u>0.67</u>	<u>3.83%</u>

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
β = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

- (a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 01/20/2012 THROUGH 03/09/2012 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE RISK PREMIUM (RM - RF) USED THE GEOMETRIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2010 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURES DURING THE SAME PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2011 YEARBOOK.

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	(A)				(B) EXPECTED RETURN
		k	$=$	r_f	$+ [\beta \times (r_m - r_f)]$	$=$
1	AWR	k	$=$	0.81%	$+ [0.70 \times (11.90\% - 5.50\%)]$	$=$ 5.29%
2	CWT	k	$=$	0.81%	$+ [0.65 \times (11.90\% - 5.50\%)]$	$=$ 4.97%
3	MSEX	k	$=$	0.81%	$+ [0.70 \times (11.90\% - 5.50\%)]$	$=$ 5.29%
4	SJW	k	$=$	0.81%	$+ [0.85 \times (11.90\% - 5.50\%)]$	$=$ 6.25%
5	WTR	k	$=$	0.81%	$+ [0.65 \times (11.90\% - 5.50\%)]$	$=$ 4.97%
6	WATER COMPANY AVERAGE				0.71	5.35%
7	GAS	k	$=$	0.81%	$+ [0.75 \times (11.90\% - 5.50\%)]$	$=$ 5.61%
8	ATO	k	$=$	0.81%	$+ [0.70 \times (11.90\% - 5.50\%)]$	$=$ 5.29%
9	LG	k	$=$	0.81%	$+ [0.60 \times (11.90\% - 5.50\%)]$	$=$ 4.65%
10	NJR	k	$=$	0.81%	$+ [0.65 \times (11.90\% - 5.50\%)]$	$=$ 4.97%
11	NWN	k	$=$	0.81%	$+ [0.60 \times (11.90\% - 5.50\%)]$	$=$ 4.65%
12	PNY	k	$=$	0.81%	$+ [0.70 \times (11.90\% - 5.50\%)]$	$=$ 5.29%
13	SJI	k	$=$	0.81%	$+ [0.65 \times (11.90\% - 5.50\%)]$	$=$ 4.97%
14	SWX	k	$=$	0.81%	$+ [0.75 \times (11.90\% - 5.50\%)]$	$=$ 5.61%
15	WGL	k	$=$	0.81%	$+ [0.65 \times (11.90\% - 5.50\%)]$	$=$ 4.97%
16	NATURAL GAS LDC AVERAGE				0.67	5.11%

REFERENCES:
COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
 r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
 β = THE BETA COEFFICIENT OF A GIVEN SECURITY
 r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

- (a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 01/20/2012 THROUGH 03/09/2012 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE RISK PREMIUM (RM - RF) USED THE ARITHMETIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2010 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SAME PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2011 YEARBOOK

PIMA UTILITY COMPANY
DOCKET NO. W-02199A-11-0328 et al.
ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. W-02199A-11-0329 et al.
SCHEDULE WAR - 8

LINE NO.	YEAR	(A) CHANGE IN CPI	(B) CHANGE IN GDP (1996 \$)	(C) PRIME RATE	(D) FED. DISC. RATE	(E) FED. FUNDS RATE	(F) 91-DAY T-BILLS	(G) 30-YR T-BONDS	(H) A-RATED UTIL. BOND YIELD	(I) Baa-RATED UTIL. BOND YIELD
1	1990	5.39%	1.90%	10.01%	6.98%	8.10%	7.50%	7.49%	9.86%	10.06%
2	1991	4.25%	-0.20%	8.46%	5.45%	5.69%	5.38%	5.38%	9.36%	9.55%
3	1992	3.03%	3.30%	6.25%	3.25%	3.52%	3.43%	3.43%	8.69%	8.86%
4	1993	2.96%	2.70%	6.00%	3.00%	3.02%	3.00%	3.00%	7.59%	7.91%
5	1994	2.61%	4.00%	7.14%	3.60%	4.21%	4.25%	4.25%	8.31%	8.63%
6	1995	2.81%	2.50%	8.83%	5.21%	5.83%	5.49%	5.49%	7.89%	8.29%
7	1996	2.93%	3.70%	8.27%	5.02%	5.30%	5.01%	5.01%	7.75%	8.17%
8	1997	2.34%	4.50%	8.44%	5.00%	5.46%	5.06%	5.06%	7.60%	8.12%
9	1998	1.55%	4.20%	8.35%	4.92%	5.35%	4.78%	4.78%	7.04%	7.27%
10	1999	2.19%	4.50%	7.99%	4.62%	4.97%	4.64%	4.64%	7.62%	7.88%
11	2000	3.38%	3.70%	9.23%	5.73%	6.24%	5.82%	5.82%	8.24%	8.36%
12	2001	2.83%	0.80%	6.92%	3.41%	3.88%	3.40%	5.95%	7.59%	8.02%
13	2002	1.59%	1.60%	4.67%	1.17%	1.67%	1.61%	5.38%	7.41%	7.98%
14	2003	2.27%	2.50%	4.12%	2.03%	1.13%	1.01%	4.92%	6.18%	6.64%
15	2004	2.68%	3.60%	4.34%	2.34%	1.35%	1.37%	5.03%	5.77%	6.20%
16	2005	3.39%	2.90%	6.16%	4.19%	3.22%	3.15%	4.57%	5.38%	5.78%
17	2006	3.24%	2.80%	7.97%	5.96%	4.97%	4.73%	4.91%	5.94%	6.30%
18	2007	2.85%	2.90%	8.05%	5.86%	5.02%	4.36%	4.84%	6.07%	6.24%
19	2008	3.84%	-6.80%	5.09%	2.39%	1.92%	1.37%	4.28%	6.34%	6.64%
20	2009	-0.36%	5.00%	3.25%	0.50%	0.00% - 0.25%	0.15%	4.08%	5.84%	6.87%
21	2010	1.64%	2.80%	3.25%	0.72%	0.00% - 0.25%	0.13%	4.25%	5.50%	5.98%
22	2011	3.00%	1.70%	3.25%	0.75%	0.00-0.25%	0.05%	3.93%	5.06%	5.58%
23	CURRENT	2.90%	2.80%	3.25%	0.75%	0.00% - 0.25%	0.08%	3.09%	4.05%	4.53%

REFERENCES:

COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS
COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
COLUMN (C) THROUGH (D): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 03/09/2012
COLUMN (F) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 03/09/2012
COLUMN (H) THROUGH (I): 1990 - 2000, MOODY'S PUBLIC UTILITY REPORTS
COLUMN (H) THROUGH (I): 2001, MERGENT 2002 PUBLIC UTILITY MANUAL
COLUMN (H) THROUGH (I): 2003, MERGENT NEWS REPORTS

AVERAGE CAPITAL STRUCTURES OF SAMPLE WATER COMPANIES (000's)

LINE NO.		AWR	PCT.	CWT	PCT.	SJW	PCT.	WTR	PCT.	MSEX	PCT.
1	DEBT	\$ 299.8	44.3%	\$ 479.2	52.4%	\$ 295.7	53.7%	\$ 1,532.0	56.6%	\$ 133.8	43.1%
2											
3	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	3.4	1.1%
4											
5	COMMON EQUITY	377.5	55.7%	435.5	47.6%	255.0	46.3%	1,174.3	43.4%	173.3	55.8%
6											
7	TOTALS	\$ 677.4	100%	\$ 914.7	100%	\$ 550.7	100%	\$ 2,706.2	100%	\$ 310.5	100%
8											
9	WATER COMPANY										
10	AVERAGE		PCT.								
11		\$ 548.1	53.1%								
12	DEBT										
13											
14	PREFERRED STOCK	0.7	0.1%								
15											
16	COMMON EQUITY	483.1	46.8%								
17											
18	TOTALS	\$ 1,031.9	100%								

AVERAGE CAPITAL STRUCTURES OF SAMPLE NATURAL GAS COMPANIES (000's)

LINE NO.		AGL	PCT.	ATO	PCT.	LG	PCT.	NJR	PCT.	NWN	PCT.
1											
2											
3	DEBT	\$ 1,673.0	47.7%	\$ 1,809.6	45.4%	\$ 364.3	47.0%	\$ 428.9	37.2%	\$ 591.7	46.1%
4											
5	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
6											
7	COMMON EQUITY	1,836.0	52.3%	2,178.3	54.6%	411.3	53.0%	725.5	62.8%	693.1	53.9%
8											
9	TOTALS	\$ 3,509.0	100%	\$ 3,987.9	100%	\$ 775.6	100%	\$ 1,154.4	100%	\$ 1,284.8	100%
10											
11											
12											
13											
14	DEBT	\$ 671.9	41.0%	\$ 340.0	37.4%	\$ 1,169.4	49.3%	\$ 592.9	33.4%	\$ 849.1	43.9%
15											
16	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	100.0	4.2%	28.2	1.6%	\$ 14.2	0.7%
17											
18	COMMON EQUITY	964.9	59.0%	570.1	62.6%	1,102.1	46.5%	1,153.4	65.0%	1,070.5	55.4%
19											
20	TOTALS	\$ 1,636.9	100%	\$ 910.1	100%	\$ 2,371.4	100%	\$ 1,774.4	100%	\$ 1,933.8	100%
21											
22	WATER & LDC										
23	AVERAGE		PCT.								
24		\$ 698.6	47.1%								
25	DEBT										
26											
27	PREFERRED STOCK	7.1	0.5%								
28											
29	COMMON EQUITY	776.8	52.4%								
30											
31	TOTALS	\$ 1,482.5	100%								

REFERENCE:
MOST RECENT SEC 10-K FILINGS OR ANNUAL REPORTS

PIMA UTILITY COMPANY

**DOCKET NO. W-02199A-11-0329
DOCKET NO. SW-02199A-11-0330**

DIRECT TESTIMONY

OF

TIMOTHY J. COLEY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 27, 2012

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EXECUTIVE SUMMARY

Pima Utility Company ("Pima" or "Company") is a Class B public service water and wastewater corporation organized as an S corporation under Subtitle A, Chapter 1, Subchapter S of the Internal Revenue Code. The Company serves approximately 10,050 wastewater customers in portions of Maricopa County, Arizona.

Pima filed general rate applications for both the Company's Water and Wastewater Divisions with the Arizona Corporation Commission ("ACC" or "Commission") on August 29, 2011 using a test year ending on December 31, 2010.

On September 19, 2011, Pima filed a Motion to Consolidate Docket Numbers W-02199A-11-0329 and SW-02199A-11-0330. In its Motion, Pima stated that the Company's water and wastewater customer bases are largely the same and Pima is operated and managed as one utility. The Commission subsequently found the Applications sufficient on September 30, 2011 and consolidated the two dockets as W-02199A-11-0329 et al. for purposes of hearing.

For Pima's Wastewater Division, the Company is requesting a gross revenue increase of \$691,210 or a 22.32 percent increase over Test Year adjusted revenue of \$3,096,775.

RUCO is recommending a \$232,207 or 7.50 percent increase over Wastewater Division Test Year adjusted revenue of \$3,096,775.

The Company is seeking a 9.47 percent rate of return on a \$9,863,271 Wastewater Division fair value rate base for an operating income of \$934,052. RUCO recommends a 9.01 percent rate of return on a \$9,832,800 fair value rate base for an operating income of \$885,935.

RUCO's adjusted Test Year rate base and operating income recommendations for Pima's Wastewater Division reflect three rate base adjustments totaling \$30,471 which reduced the Company-proposed rate base from \$9,863,271 to 9,832,800; and eight operating income adjustments totaling \$215,055 which increased the Company's Test Year adjusted operating income from \$441,784 to \$656,839.

Based on RUCO's analysis of Pima Wastewater Division's rate Application, RUCO is recommending a flat rate design that will result in an increase for the residential 5/8" x 3/4" meter in the amount of \$1.03 from \$22.73 to \$23.76 per month.

- 1 RUCO analyst Robert B. Mease will provide direct testimony on Pima's
- 2 water Application.
- 3
- 4 RUCO's Chief of Accounting and Rates, William A. Rigsby, will provide
- 5 direct testimony on RUCO's recommended cost of capital and the
- 6 Company's request to include income taxes in rates.

INTRODUCTION

Q. Please state your name, position, employer and address.

A. My Name is Timothy J. Coley. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please state your educational background and qualifications in the utility regulation field.

A. Appendix 1, which is attached to this testimony, describes my educational background and includes a list of the rate cases and regulatory matters in which I have participated.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's recommendations regarding Pima Utility Company's ("Pima" or "Company") Wastewater Division Application for a determination of the current fair value of its utility plant and property and for a permanent increase in its rates and charges based thereon for utility service. The test year utilized by Pima in connection with the preparation of this Application is the 12-month period ending December 31, 2010 ("Test Year").

BACKGROUND

Q. Please describe your work effort on this project.

A. I obtained and reviewed data and performed analytical procedures necessary to understand the Company's filing as it relates to operating income, rate base, and the Company's overall revenue requirement. My recommendations are based on these analyses. Procedures performed include the in-house formulation and analysis of three sets of data requests, the review and analysis of the Company's responses to Commission Staff's data requests, and review of prior ACC dockets related to Pima Utility Company.

RUCO's participation in this proceeding is the cumulative effort of three RUCO witnesses; myself (Timothy J. Coley), William A. Rigsby, and Robert B. Mease. I was responsible for the rate base, operating income adjustments that determine RUCO's revenue requirement recommendations, and rate design for the wastewater division. RUCO's Chief of Accounting and Rates, Mr. Rigsby, will present separate testimonies on policy related issues (i.e. income tax allowance¹) and RUCO's cost of capital recommendation. RUCO witness, Mr. Mease, will provide separate testimony on Pima's Water Division.

...

¹ Sub-Chapter S corporations do not pay income taxes at the entity level. The income tax liability is passed through to the individual shareholders on their annual personal income tax filings.

1 **Q. Please identify the schedules and exhibits that you are sponsoring.**

2 A. I am sponsoring revenue requirement schedules for Pima Wastewater
3 numbered TJC-1 through TJC-16 and rate design schedules numbered
4 TJC RD-1 through TJC RD-4.
5

6 **SUMMARY OF DIRECT TESTIMONY**

7 **Q. Please summarize the adjustments to the rate base in your**
8 **testimony.**

9 A. My testimony addresses the following rate base adjustments:
10

11 **Rate Base Adjustments - Summary**

12 RUCO is in general agreement with the Company-proposed gross Utility
13 Plant in Service ("UPIS") with the exception of some plant additions
14 predating the last wastewater rate case decided in Commission Decision
15 No. 62184 and dated January 5, 2000. The Test Year utilized in that case
16 was the year ended December 31, 1997. Nevertheless, RUCO reserves
17 the right to alter its position if additional evidence is produced in this case,
18 which warrants RUCO's reconsideration of its position. A summary of
19 RUCO's rate base adjustments are as follows:
20

21 Rate Base Adjustment #1 – Plant and Accumulated Depreciation

22 This adjustment reduces gross UPIS by \$37,858 and decreases
23 accumulated depreciation by \$43,884 for a net adjustment of \$6,026. The

1 adjustment reflects RUCO's recommended gross UPIS and accumulated
2 depreciation balances since the last rate case referenced above for
3 Pima's Wastewater Division. The adjustment takes into consideration
4 plant balances approved in Pima's prior rate case proceeding and
5 includes all plant additions, retirements, and adjustments since that time at
6 the Commission approved depreciation rates. As will be discussed in
7 more detail later in my testimony, RUCO disallowed some 1994-1996
8 plant additions that the Company claims were on its books but not
9 included in Decision No. 62184.

10
11 Rate Base Adjustment #2 – Convert Advances in Aid of Construction
12 (AIAC) to Contributions in Aid of Construction (CIAC)

13 This adjustment reduces AIAC by \$285,313 and increases CIAC by
14 \$343,412. The adjustment reflects the conversion of AIAC from a
15 bankrupt developer into CIAC. Since no identifiable or known
16 entity/person existed for Pima to make refunds to, RUCO converted the
17 remaining balance of advanced funds into contributions (in response to
18 Staff data request CSB 1-12, the Company agreed that the conversion
19 from AIAC to CIAC was appropriate). This adjustment has a nominal
20 impact on depreciation expense, which will be discussed in more detail
21 later.

1 Rate Base Adjustment #3 – Capitalize an Expensed Plant Item

2 This adjustment increases plant by \$22,391 and accumulated depreciation
3 by \$789.² A corresponding expense adjustment to remove the \$22,391 is
4 also necessary and will be discussed in more detail later. The Company
5 agreed with this adjustment in its response to Staff data request 1.34.

6
7 **Operating Income Adjustments - Summary**

8 **Q. Please summarize RUCO's operating income adjustments in your**
9 **testimony.**

10 **A. RUCO is recommending the following operating income adjustments that**
11 **will be discussed in detail later in my testimony:**

12
13 Operating Income Adjustment #1 – Depreciation Expense

14 This adjustment calculates depreciation and amortization expense based
15 on RUCO's recommended plant levels. The adjustment increases Pima's
16 depreciation expense by \$3,021.

17
18 Operating Income Adjustment #2 – Property Tax Expense

19 This adjustment calculates property tax expense based on a modified
20 Arizona Department of Revenue ("ADOR") formula that has been adopted
21 by the Commission in a number of prior rate cases. The adjustment
22 decreases Pima's property tax expense by \$1,401.

² The \$789 adjustment to accumulated depreciation was calculated using the half-year convention method of depreciation as shown on Schedule TJC-6.

1 Operating Income Adjustment #3 – Remove Materials and Supplies
2 Expense That Should Have Been Capitalized

3 This adjustment removes expensed items from the materials and supplies
4 expense account and capitalizes it to the proper plant accounts. The
5 adjustment reduces the expense by \$22,391.

6
7 Operating Income Adjustment #4 – Remove Contractual Services –
8 Engineering Expense That Should Have Been Recorded to Construction
9 Work in Progress (“CWIP”)

10 This adjustment removes expensed items from the contractual services –
11 engineering expense account and reclassifies it as CWIP. The adjustment
12 reduces the expense by \$19,524.

13
14 Operating Income Adjustment #5 – Rate Case Expense

15 This adjustment reflects RUCO’s \$150,000 recommended level of rate
16 case expense, to be normalized over four years. The adjustment
17 decreases the Company-proposed level of annual rate case expense by
18 \$12,500 for an annual rate case expense of \$37,500.

19
20 Operating Income Adjustment #6 – Miscellaneous Expense – Banking
21 Fees

22 This adjustment increases the miscellaneous expense account by \$6,354.
23 The adjustment shifts 50 percent of the bank fees – 100 percent of which

1 had been recorded on the Water Division's books – to Pima's Wastewater
2 Division.

3
4 Operating Income Adjustment #7 – Salaries and Wages Officers

5 This adjustment, related to the director of the Company, decreases the
6 salaries and wages expense account by \$83,209.

7
8 Operating Income Adjustment #8 – Intentionally Left Blank

9
10 Operating Income Adjustment #9 – Intentionally Left Blank

11
12 Operating Income Adjustment #10 – Intentionally Left Blank

13
14 Operating Income Adjustment #11 – Income Tax Expense

15 This adjustment removes the Company's \$85,405 adjusted Test Year pro
16 forma adjustment for income tax expense. RUCO also recommends no
17 recognition for income taxes on the proposed revenues on a going forward
18 basis. The rationale for the adjustment will be explained by RUCO
19 witness Mr. Rigsby in his direct testimony on income taxes.

Revenue Requirements - Summary

Q. Please summarize the results of RUCO's analysis of the Company's filing and state RUCO's recommended revenue requirements for Pima's Wastewater Division.

A. As can be seen on my Schedule TJC-1, a comparison between the Company's and RUCO's recommended revenue increases is presented below:

<u>Pima Revenue</u> <u>\$'s Increase</u>	<u>RUCO Revenue</u> <u>\$'s Increase</u>	<u>Pima Revenue</u> <u>% Increase</u>	<u>RUCO Revenue</u> <u>% Increase</u>
\$ 691,210	\$ 232,207	22.32%	7.50%

Rate Design - Summary

Q. Please summarize RUCO's rate design for Pima Utility Company's Wastewater Division.

A. RUCO's rate design is similar to the Company's with two exceptions. The first exception is the difference between Pima and RUCO's overall gross revenue increase. The second difference is that RUCO's rate design is based on the NARUC meter multiplier where the Company's rates at different meter sizes are chosen independently. This will all be discussed in greater detail later in my testimony.

1 **Q. What would be a typical monthly bill for a 5/8 X 3/4 inch meter**
2 **residential customer under RUCO's recommended rates and the**
3 **Company-proposed rates?**

4 A. Under RUCO's recommended rates, a 5/8 X 3/4 inch meter residential
5 customer would experience a typical monthly bill of \$23.76 which is \$1.03,
6 or 4.53%, higher than Pima's present rate of \$22.73. Under the
7 Company-proposed rates, a 5/8 X 3/4 inch meter residential customer
8 would experience a typical monthly bill of \$27.79 which is \$5.06, or
9 22.26%, higher than Pima's present rate of \$22.73.

10
11 **RATE BASE ADJUSTMENTS**

12 **Q. Please address and explain the rate base adjustments made by**
13 **RUCO in this proceeding.**

14 A. RUCO made three adjustments to the Company-proposed level of rate
15 base, which are explained on the succeeding pages.

16
17 Rate Base Adjustment #1 – Utility Plant in Service (UPIS) and
18 Accumulated Depreciation

19 **Q. Please explain RUCO's adjustment to the Company's UPIS and**
20 **accumulated depreciation balances.**

21 A. RUCO's adjustment is based on a reconstruction of UPIS additions,
22 adjustments, and retirements that have occurred since the Company's last

1 rate case³ in order to determine the proper plant and accumulated
2 depreciation balances for the test year in this case.

3
4 **Q. Does RUCO accept the Company's balances of UPIS and**
5 **accumulated depreciation for a starting point?**

6 A. No, not entirely. There are some nominal differences between RUCO and
7 the Company's recommended UPIS and accumulated depreciation
8 balances. The primary difference is due to the Company including some
9 plant additions that predates Pima's last rate case Test Year ended
10 December 31, 1997.

11
12 **Q. In what circa was the plant additions claimed by the Company?**

13 A. The plant additions were from 1994 through 1996. Those years predate
14 the Company's last Test Year of 1997. The Company's consultant
15 identified the plant additions in his work papers as "sewer plant recorded
16 on water books – not included in Decision 62184."

17
18 **Q. What is RUCO's rationale for not recognizing and allowing the**
19 **approximate \$37,858 of plant in which the Company included in its**
20 **UPIS balance?**

21 A. There are two primary reasons why RUCO does not recognize and allow
22 the said plant. First, it would be retroactive ratemaking to include any

³ The UPIS and accumulated depreciation balances authorized in Commission Decision No. 62184, dated January 5, 2000, for Pima Utility Company's Wastewater Division.

1 plant that predates January 1, 1998 because Decision No. 62184 was
2 based on a Test Year end December 31, 1997. Second, RUCO reviewed
3 the plant in question and determined that over 90 percent of the \$37,858
4 of plant additions would be fully depreciated by 2010.

5
6 **Q. What adjustment does RUCO recommend to account for this plant**
7 **and associated accumulated depreciation?**

8 A. RUCO recommends reducing the Company's gross utility plant in service
9 balance by \$37,858 and accumulated depreciation by \$43,884. These
10 adjustments are shown on Schedule TJC-2 and TJC-3 with the details
11 shown on TJC-4 Direct Plant, page 13 on line 45.

12
13 Rate Base Adjustment #2 – Convert Advances in Aid of Construction
14 (AIAC) to Contributions in Aid of Construction (CIAC)

15 **Q. Please explain RUCO's rate base adjustment that converts all of the**
16 **Company's AIAC balance to CIAC?**

17 A. During the discovery phase, the Company determined that it had a single
18 line extension contract recorded as AIAC in the Wastewater Division.⁴

19 Pima stated the following:

20 Due to the bankruptcy of the developer, Pima has been
21 unable to pay the refunds due to the developer and is
22 unaware of a successor entity to which payments can be
23 made. Since it is unlikely that Pima will ever be able to

⁴ See Company response to Staff data request CSB 1-12.

1 actually pay the amounts due, Pima believes it may be more
2 appropriate to eliminate the account payable to the
3 developer and reclassify the full amount of the original
4 advance to Contributions in Aid of Construction.
5

6 **Q. Does RUCO agree with the Company's suggestion to reclassify the**
7 **AIAC balance to CIAC?**

8 A. Yes.
9

10 **Q. What adjustments did RUCO make to convert the AIAC to CIAC?**

11 A. RUCO reversed the Company's net AIAC balance of \$285,313 to zero and
12 added the gross AIAC balance of \$343,412 to CIAC. This adjustment also
13 has an impact on operating income because it will decrease Pima's
14 proposed depreciation expense. RUCO believes that Pima should
15 eliminate the account payable to the developer from the Company's
16 books. RUCO's adjustments are shown on Schedule TJC-2 and TJC-3
17 with the details shown on TJC-5.
18
19
20
21
22

23 ...
24

Rate Base Adjustment #3 – Capitalize an Expensed Plant Item to Plant

Q. Please explain RUCO's rate base adjustment that capitalizes a plant item that had been erroneously expensed by the Company.

A. During the discovery phase, the Company also determined that it had expensed a wastewater plant item that should have been capitalized.⁵

Pima stated the following:

In review of the test year costs, it was determined that \$22,391 of these costs should have been capitalized to Utility Plant in Service.

Q. Does RUCO agree with Pima's assessment that the expensed plant item should have been capitalized and recorded in the appropriate plant accounts?

A. Yes.

Q. Please explain why RUCO capitalized the expensed plant item and recorded it in the appropriate plant accounts.

A. RUCO removed \$22,931 from the materials and supplies expense account on the income statement and capitalized the same amount to the appropriate plant accounts. A half-year convention for depreciation expense was removed from accumulated depreciation in the amount of \$789. These adjustments are shown on Schedule TJC-2 and TJC-3 with the details shown on TJC-6. These adjustments had a nominal impact on

⁵ See Company response to Staff data request CSB 1-34.

1 the Company's operating income through additional depreciation expense
2 on a going forward basis.

3
4 Rate Base Adjustment #4 – Reclassify an Expensed Plant Item to
5 Construction Work in Progress (CWIP)

6 **Q. Please explain RUCO's rate base adjustment that reclassifies an**
7 **expensed plant item to CWIP.**

8 **A.** During the discovery phase, the Company further determined that it had
9 expensed a wastewater plant item that should have been reclassified to
10 CWIP.⁶ Pima stated the following:

11
12 The increase is due primarily to several B&R Engineering
13 invoices, in the amount of \$19,523.75, related to the
14 preliminary engineering for the Hunt Highway Sewer Force
15 Main project. These invoices should have been capitalized
16 to Construction Work in Progress.

17
18 This adjustment has no bearing on Pima's rate base because it was never
19 recorded to UPIS but expensed on the income statement. The contractual
20 services – engineering expense will be reduced by \$19,524 in the
21 operating income section of this testimony later. Because the ACC does
22 not afford CWIP rate base treatment, except in rare and extraordinary
23 circumstances (i.e. Palo Verde Nuclear Plant Construction), there is no

⁶ See Company response to Staff data request CSB 1-36.

1 rate base adjustment required. This discussion was for clarification
2 purposes only.
3

4 **OPERATING INCOME ADJUSTMENTS**

5 **Q. Please address and explain the operating income adjustments that**
6 **RUCO is recommending in this proceeding.**

7 A. RUCO recommends eight operating income adjustments to Pima's
8 operating income elements as summarized earlier in this testimony. The
9 cumulative review, analysis, and adjustments made by RUCO are
10 explained on the succeeding pages.
11

12 Operating Income Adjustment #1 – Depreciation Expense

13 **Q. Do you agree with the Company's adjusted Test Year depreciation**
14 **expense as filed in its Application?**

15 A. No.
16

17 **Q. What factors drove RUCO's adjustment to Pima's level of adjusted**
18 **test year depreciation expense?**

19 A. Three primary factors drove RUCO's adjustment to Pima's requested level
20 of adjusted test year depreciation expense. First, RUCO's level of UPIS
21 differs from the Company's adjusted Test Year levels. This is solely due
22 to RUCO's rate base adjustments #1 and #3 explained earlier in my
23 testimony.

1 Second, RUCO's CIAC balance is higher than the Company's adjusted
2 Test Year CIAC balance. This is solely due to RUCO rate base
3 adjustment #2, which converts the Company's gross AIAC balance to
4 CIAC (See RUCO Testimony).

5
6 The third and final reason for the differences in the levels of depreciation
7 expense is that the Company is not depreciating plant that is booked in
8 seven depreciable plant account balances. This can be seen in the
9 Company's depreciation expense schedule (Company Schedule C-2,
10 page 2) and was discussed with Pima's rate consultant Mr. Bourassa. As
11 can be seen on Schedule TJC-9, RUCO is depreciating the plant
12 contained in those seven account balances. The remaining issue in this
13 area is Mr. Bourassa's depreciation calculations continues to take
14 depreciation expense on transportation equipment that has been fully
15 depreciated. Because the equipment in this account has been fully
16 depreciated, there should be no depreciation expense on a going forward
17 basis.

18
19 **Q. What adjustment was necessary to correct the problems with the**
20 **Company's depreciation expense described above?**

21 **A.** It was necessary to increase the Company's adjusted Test Year
22 depreciation expense by \$3,021. The adjustment is shown on Schedule
23 TJC-7 and TJC-8 with the details shown on TJC-9.

Operating Income Adjustment #2 – Property Tax Expense

Q. Has RUCO changed its approach to computing property tax expense for the adjusted Test Year?

A. Yes. RUCO has adopted the method that the Staff has been using for the past several rate cases. This method of computing property tax expense also has an effect on the adjusted Test Year income taxes and computation of the gross-up conversion factor. This was adopted by RUCO primarily to eliminate issues of comparability of the Test Year level of adjusted operating expenses and adjusted operating income.

Q. Has RUCO made an adjustment to the Company-adjusted Test Year level of property tax expense?

A. Yes.

Q. Please explain the reasons why RUCO has made an adjustment to the Company-proposed level of adjusted Test Year property tax expense?

A. There are essentially three reasons that led to RUCO's adjusted Test Year property tax expense adjustment. First, the Company included 100 percent rather than the proper 10 percent of CWIP in its property tax calculation, as can be seen on Company Schedule C-2, page 3 on line 10. That has been corrected in RUCO's calculation. However, RUCO's operating income adjustment #4 removed an expensed item and

1 reclassified it to CWIP in the amount of \$19,524. The Company has
2 agreed to this reclassification of CWIP in its data response to Staff data
3 request CSB 1-36. The proper amount of CWIP to be reflected on
4 Company Schedule C-2, page 3 on line 10 is \$3,971 rather than the
5 Company's \$20,190.

6
7 Second, the Company includes the gross book value rather than the
8 correct net book value of licensed vehicles, as can be seen on Company
9 Schedule C-2, page 3 on line 11. Pima Wastewater's net book value of
10 licensed vehicles is zero not \$21,830 as shown on the Company's
11 schedule because the vehicles are fully depreciated with no net book
12 value remaining.

13
14 Finally, RUCO and the Company have slightly different effective property
15 tax rates. This is due to Company not including two parcels when
16 calculating the overall effective property tax rate. The Company includes
17 a separate line item for those two parcels (See Company Schedule C-2,
18 page 3 on line 17) in the modified version of the Arizona Department of
19 Revenue – Centrally Valued Properties ("ADOR") method for determining
20 property taxes. The ADOR methodology does not cite such an inclusion
21 of a separate line item for tax on parcels. Moreover, an ACC Staff witness
22 recently testified in the Goodman Water Company rate case in Docket No.
23 W-02500A-10-0382 as follows:

1 There are two issues to note on Mr. Bourassa's rejoinder
2 Schedule C-2, page 3. The first one is, pertains to line 17,
3 tax on parcels, \$1,320. And I was wondering what that item
4 was.

5
6 So I contacted the Arizona Department of Revenue
7 personnel that deal with these centrally valued properties
8 and inquired about why there might be any such thing in a
9 water utility's tax bill, and they assured me that there is no
10 such thing; and they did some research on it and got back
11 to me, and they assured me that there is no such thing, and
12 that one hundred percent of the property tax bill is based on
13 revenues...

14
15 ...And so we just wanted to comment that we don't
16 anticipate that in future rate cases that we'll be providing any
17 amount for taxes on parcels.⁷

18
19 RUCO's effective property tax rate calculation includes the tax on parcels
20 and is multiplied by assessed value to arrive at RUCO's recommended
21 adjusted Test Year property tax expense.

22
23
24
25
26 ...

27

⁷ Tr. at 969-970 lines 9-25 and 1-14 (Gordon Fox).

1 **Q. What adjustment to adjusted Test Year property tax expense does**
2 **RUCO recommend to account for the reasons you pointed out**
3 **above?**

4 A. It is necessary to reduce the Company's adjusted Test Year property tax
5 expense by \$1,401. The adjustment is shown on Schedule TJC-7 and
6 TJC-8 with the details shown on TJC-10.

7
8 Operating Income Adjustment #3 – Remove Materials and Supplies
9 Expense and Capitalize to Plant Accounts

10 **Q. Please explain RUCO's adjustment to materials and supplies**
11 **expense.**

12 A. During the discovery phase in this case, it was determined by the
13 Company that it had expensed a wastewater plant item that should have
14 been capitalized.⁸ Pima stated the following:

15 In review of the test year costs, it was determined that
16 \$22,391 of these costs should have been capitalized to
17 Utility Plant in Service.
18

19 **Q. Does RUCO agree with Pima's assessment that the expensed item**
20 **should have been capitalized to the appropriate plant accounts?**

21 A. Yes.
22

⁸ See Company response to Staff data request CSB 1-34.

1 **Q. What adjustments did RUCO make to incorporate the Company's**
2 **assessment that the expensed item should have been capitalized to**
3 **the appropriate plant accounts?**

4 A. RUCO removed \$22,931 from the materials and supplies expense
5 account on the income statement and capitalized the same amount to the
6 appropriate plant accounts. RUCO's adjustment is shown on Schedule
7 TJC-7 and TJC-8 with the details shown on TJC-11. The adjustment will
8 also have a nominal impact on the operating income through additional
9 depreciation expense on a going forward basis.

10
11 Operating Income Adjustment #4 – Remove Contractual Services –
12 Engineering Expense and Reclassify to Construction Work in Progress
13 (CWIP)

14 **Q. Please explain RUCO's adjustment to contractual services -**
15 **engineering expense.**

16 A. During the discovery phase in this case, it was determined by the
17 Company that it had expensed a wastewater plant item that should have
18 been reclassified to CWIP.⁹ Pima stated the following:

19 "The increase is due primarily to several B&R Engineering
20 invoices, in the amount of \$19,523.75, related to the
21 preliminary engineering for the Hunt Highway Sewer Force
22 Main project. These invoices should have been capitalized
23 to Construction Work in Progress."

⁹ See Company response to Staff data request CSB 1-36.

1 RUCO's adjustment reduces the contractual services – engineering
2 expense by \$19,524 and reclassifies it to CWIP. The adjustment is shown
3 on Schedule TJC-7 and TJC-8 with the details shown on TJC-12.

4
5 Operating Income Adjustment #5 – Rate Case Expense

6 **Q. Has RUCO made an adjustment to Pima's requested level of rate**
7 **case expense?**

8 A. Yes. RUCO has reduced Pima's requested total level of rate case
9 expense of \$200,000 by \$50,000 for a total rate case expense of
10 \$150,000 or 37,500 per year over a four-year period.

11
12 **Q. How did RUCO arrive at its adjustment to rate case expense?**

13 A. RUCO's compared the Company-proposed level of rate case expense to
14 levels of rate case expense that were incurred in other rate cases before
15 the Commission. Based on RUCO's review, RUCO believes that the
16 Company's request is not reasonable in this case.

17
18 **Q. What other rate cases did RUCO review?**

19 A. RUCO reviewed a number of cases that involved utilities such as Arizona
20 Water Company ("AWC") and UNS Gas, Inc. ("UNSG"). The most
21 compelling case that RUCO looked at involved Sunrise Water Co.¹⁰
22 ("Sunrise"), a Class B water provider organized as an S corporation like

¹⁰ Docket No. W-02069A-08-0406

1 Pima. In that case, which was filed in August 2008 and decided on
2 December 23, 2009, the Commission adopted a total level of rate case
3 expense of \$82,500 or \$27,500 to be amortized over three years. The
4 Sunrise rate case involved a number of ratemaking issues including the
5 recovery of income taxes in rates. Sunrise obtained the services of an
6 outside attorney and a professional consultant (Mr. Ray Jones who is also
7 testifying in this case on behalf of Pima). Given the similarities of the two
8 cases, RUCO believes that the Sunrise case is a good yardstick for
9 determining the reasonableness of Pima's requested level of rate case
10 expense. Despite the similarities, RUCO's recommended total rate case
11 expense of \$150,000 for Pima is \$67,500 more than what the Commission
12 adopted for Sunrise in Decision No. 71445.

13
14 **Q. How did the rate case expense levels of other utilities compare with**
15 **the level of rate case expense requested by Pima?**

16 A. In a prior rate cases for AWC's Northern and Eastern Groups¹¹, which
17 were comprised of five and eight individual water systems respectively,
18 the Commission approved a total of \$250,000 in rate case expense for
19 each Group, or \$50,000 more than Pima's requested level of expense in
20 this proceeding. The Commission later authorized \$250,000 in rate case
21 expense for a case involving AWC's Western Group¹² which was

¹¹ Decision No. Decision No. 64282, dated December 28, 2001 and Decision No. 66849, dated March 19, 2005

1 comprised of five separate water systems. In the most recent rate cases
2 for AWC's Western and Eastern Groups, AWC requested total rate case
3 expense of \$626,156¹³ and \$476,874 respectively. While these requested
4 amounts are \$226,156 and \$76,874 higher than the \$400,000 that Pima is
5 seeking for both its Water and Wastewater Systems, it has to be
6 remembered that AWC is a statewide Class A utility and its filings
7 consisted of multiple water systems where this case only involved two
8 operating divisions.

9
10 In the pending UNSG rate case, UNSG requested a total rate case
11 expense of \$700,000. UNSG is a Class A public service corporation that
12 serves far more customers over a much larger service territory than Pima.
13 UNSG's rate case is much bigger, involved more parties and also deals
14 with more complex ratemaking issues such as decoupling. Both ACC
15 Staff and RUCO are recommending that UNSG's requested level of
16 expense be reduced to \$400,000, which is the same amount that Pima is
17 requesting for the Company's Water and Wastewater Divisions combined.

18
19 Based on the comparisons provided above RUCO believes that its
20 \$37,500 recommended annual level of rate case expense is reasonable
21 and should be adopted by the Commission. Nevertheless, RUCO

¹² Decision No. 68302, dated November 14, 2005

¹³ AWC eventually agreed to RUCO's total rate case expense figure of \$304,975

1 reserves the right to make a further upward or downward adjustment to
2 rate case expense as additional evidence is produced in this case.

3
4 **Q. Are there any other issues regarding rate case expense that RUCO**
5 **wants to address?**

6 A. Yes. RUCO is concerned that traditional rate recovery for rate case
7 expense is an inequitable solution for Pima. Normally, rate case expense
8 is amortized / normalized over a short period of years that is reflective of
9 the typical amount of time a utility stays out between rate cases.
10 However, Pima does not come in for rate cases very often. The water
11 division filed its last rate case with a Test Year ending December 31, 1992
12 while the wastewater division's last rate case was filed with a Test Year
13 ending December 31, 1997. The Company has reached build out and
14 RUCO has no reason to believe that this Company will come in for
15 another rate case in the near future.

16
17 If history repeats itself and it normally does, this long stay out would result
18 in a windfall to the Company since rate case expense is a non-recurring
19 expense and will be collected through rates until the Company's next rate
20 case. For example, this scenario is based on the Company Wastewater
21 Division's requested amount of annual rate case expense of \$50,000
22 (\$200,000 of total rate case expense / amortized over 4 years = \$50,000
23 of annual rate case expense). If the Company does not file another rate

1 case for another 20 to years, the Company would collect \$1,000,000
2 (\$50,000 of annual rate case expense x 20 years = \$1,000,000) in rate
3 case expense through its base rates from Pima's ratepayers. If the
4 Company does not file another rate case for 15 years, Pima would collect
5 \$750,000 in rate case expense through its base rates. This amounts to an
6 over-collection of rate case expense of five-fold in the 20 year scenario
7 and 3.75 times in the 15 year scenario. Had the Commission authorized a
8 \$50,000 annual rate case expense in Decision Nos. 58743 and 62184
9 dated August 11, 1994, and January 5, 2000 respectively, the scenario
10 described above would have actually happened.

11
12 **Q. Why does RUCO believe that it "is likely" that the Company will not**
13 **file a rate case for another 15 to 20 years?**

14 A. By the Company's own admission,¹⁴ "Pima Utility Company's service area
15 is built out." There are limited reasons in the foreseeable future for the
16 Company to file another rate case anytime soon.

17
18 **Q. What does RUCO recommend to prevent or curtail that event from**
19 **happening in the future?**

20 A. RUCO offers three different options that would prevent the above scenario
21 from happening. First, a surcharge for rate case expense could be
22 applied as a separate line item on the customers' bill. When the rate case

¹⁴ See Company data response to Staff data request CSB 1-12.

1 expense authorized in this proceeding has been fully collected through the
2 surcharge, the surcharge would be eliminated and nothing but base rates
3 would apply going forward.

4
5 The second option is to extend the normalization period to ten years. This
6 option would lower rates. If the Company were to file a rate case prior to
7 fully collecting the authorized rate case expense, RUCO recommends that
8 the Company be granted a deferred accounting order, which would allow
9 Pima to amortize the remaining unrecovered expense over some period of
10 time. This option completely eliminates the possibility of under-collecting
11 the authorized level of rate case expense. The third option simply reduces
12 the Company's level of authorized rate case expense with no deferred
13 accounting order.

14
15 Of the three options, RUCO recommends the second option. Increasing
16 the normalization will ameliorate the rate impact on ratepayers. It will
17 further avoid the often unfavorable response of the public to a surcharge.
18 Finally, while RUCO would not object to a reduction in the overall rate
19 case expense, it is recommending. RUCO will reserve its right to further
20 explore this option in coming up with a final recommendation as to a
21 reasonable amount of rate case expense.

Operating Income Adjustment #6 – Miscellaneous Expense – Bank Fees

Q. Please explain RUCO's adjustment to Pima's miscellaneous expense.

A. During the discovery phase in this case, it was determined by the Company that it had allocated 100 percent of bank fees to Pima's Water Division. The Company stated it "should have been allocated on a 50/50 basis."¹⁵

Q. Does RUCO agree with the Company that the bank fees should have been allocated on a 50/50 basis between the water and wastewater divisions?

A. Yes. RUCO has made that adjustment to allocate the bank fees on a 50/50 basis.

Q. What adjustment to the wastewater division is necessary to allocate the bank fees on a 50/50 basis?

A. RUCO's adjustment increases the wastewater's miscellaneous expense account by \$6,354 and decreases the water division's miscellaneous expense account by the same amount. This adjustment is shown on Schedule TJC-7 and TJC-8 with the details shown on TJC-14.

¹⁵ See Company response to Staff data request CSB 1-18.

Operating Income Adjustment #7 – Salaries and Wages Officers

Q. Please explain RUCO's adjustment to Pima's salary and wage expense.

A. RUCO's adjustment relied on Pima's response to Staff data request CSB 1-29. The Company's response included attachments that listed employee names, job titles, hours worked, gross pay, and payroll burden. Based on RUCO's analysis of the referenced documents, it became clear that Chairman of the Board E. J. Robson's hourly pay rate was exorbitant and RUCO made an adjustment to the hourly pay rate.

Q. What was the pay rate identified in the referenced documents provided by Pima?

A. It identified Mr. Robson's gross pay as \$90,294 with 56.68 hours worked, which equates to \$1,593 per hour ($\$90,294 / 56.68 \text{ hrs.} = \$1,593.05$). Approximately the same amount is being charged to the water division also. That is a total of over \$180,000 being charged to Pima Utility Company's rate payers for one person's wages! The same set of customers is being asked to share this \$90,000 burden twice on both the water and wastewater divisions. The Company's request is unreasonable and excessive and the Company's ratepayers should not have to bear in their rates.

...

Q. How did RUCO determine the basis for its adjustment?

A. From RUCO's experience in other large Class A water and wastewater rate cases, other Presidents and CEOs of water/wastewater companies in Arizona receive far less than \$1,593 per hour. RUCO based its recommended hourly rate from other water and wastewater Presidents/CEOs in Arizona at \$125 per hour, which is fair and reasonable.

Q. What adjustment is necessary when basing RUCO's adjustment to salary and wage expense of other Arizona water and wastewater Presidents/CEOs?

A. The necessary adjustment reduces the referenced salary by \$83,209. This adjustment is shown on Schedule TJC-7 and TJC-8 with the details shown on TJC-15.

Operating Income Adjustment #8 – Intentionally Left Blank

Operating Income Adjustment #9 – Intentionally Left Blank

Operating Income Adjustment #10 – Intentionally Left Blank

Operating Income Adjustment #11 – Income Tax Expense

Q. Did RUCO make an adjustment to the Company-proposed level of income tax expense?

A. Yes. RUCO reversed the Company's proforma income tax expense adjustment because of Pima's status as an S corporation. RUCO's decision not to include income taxes in rates for Pima will be explained in the direct testimony of RUCO witness, Mr. Rigsby.

RATE DESIGN

Q. Please describe RUCO's rate design for Pima Utility Company's Wastewater Division.

A. RUCO's rate design is similar to the Company's with two exceptions. The first exception is the difference between Pima and RUCO's overall gross revenue increase. The second difference is that RUCO's rate design is based on the NARUC meter multiplier where the Company's rates on different meter sizes are chosen independently. Because of this difference RUCO's recommended rates are lower on a dollar and percentage basis on larger meter sizes than what the Company proposed.

Q. Why are RUCO rates lower on a dollar and percentage basis on larger meter sizes than what the Company proposed.

A. The reason that the dollar increase is lower for RUCO's recommended increase in rates is because of RUCO's lower recommended increase in

1 revenue. RUCO's revenue increase is approximately one-third of the
2 amount proposed by the Company. There are fewer dollars needed to
3 generate RUCO's recommended revenue increase in all meter sizes and
4 customer classifications. In addition, RUCO used the NARUC meter
5 multiplier for the meters larger than 5/8 x 3/4 inch whereas the Company
6 independently assigns rates for the larger meters. As a consequence,
7 RUCO's rates for larger meters are very similar to the Company's present
8 rates. The reason that the percentage increase is lower for RUCO's
9 recommended increase in rates on larger meters than the Company's
10 proposed rates is because of RUCO's second exception mentioned in the
11 previous answer above. RUCO concludes that the larger meter size
12 customers were being overcharged compared to the 5/8 x 3/4 inch
13 metered customers.

14
15 **Q. Does RUCO and Pima's rate design propose flat monthly rates with**
16 **no commodity charges for all customer sizes and classifications (i.e.**
17 **residential, commercial, and effluent customer classifications)?**

18 **A.** Yes, with one exception. The only customer classification that has a
19 commodity rate associated with their rate design is two golf courses
20 receiving effluent sales from Pima's wastewater treatment plant. Under
21 RUCO's recommended rate design for the effluent customers, both
22 effluent customers would pay a flat \$190.00 monthly charge plus a
23 commodity rate of \$0.64 per 1,000 gallons compared to the Company's

proposed flat monthly charge of \$232.56 plus a commodity rate of \$0.70 per 1,000 gallons.

Q. What is the monthly 5/8 x 3/4 inch residential wastewater customer's monthly bill under RUCO's rates compared to the Company's proposed rates?

A. RUCO's monthly bill for a 5/8 x 3/4 inch residential customer is \$23.76 or \$1.03 (or 4.53%) higher than Pima's present rate of \$22.73. Pima's proposed monthly bill for a 5/8 x 3/4 inch residential customer is \$27.79 or \$5.06 (or 22.26%) higher than Pima's present rate of \$22.73. A typical monthly bill for a 5/8 x 3/4 Inch residential customer is shown for the Company's present rates, proposed rates, and RUCO recommended rates in the table below:

<u>Residential</u>	<u>Company</u> <u>Present Rate</u>	<u>Company</u> <u>Proposed Rate</u>	<u>RUCO</u> <u>Rec. Rate</u>
5/8 x 3/4 inch	\$ 22.73	\$ 27.79	\$ 23.76

Q. Do the residential and commercial classifications share the same rates under the Company's present and proposed rates and under RUCO's recommended rates?

A. Yes. The only classification with unique rates is the two effluent customers, which share the same rates and was discussed earlier.

1 **Q. Does your silence on any of the issues, matters or findings**
2 **addressed in the testimony of any of the witnesses for Pima**
3 **constitute your acceptance of their positions on such issues,**
4 **matters or findings?**

5 **A. No, it does not.**

6

7 **Q. Does this conclude your testimony on Pima's Wastewater Division?**

8 **A. Yes, it does.**

APPENDIX 1

Qualifications of Timothy J. Coley

WORK HISTORY

July 2000 – Present: **RESIDENTIAL UTILITY CONSUMER OFFICE**, Phoenix, Arizona
Public Utilities Analyst V. The Residential Utility Consumer Office (RUCO) is a consumer advocate group providing residential consumers a voice in utility regulation and backed by a professional staff with legal and financial expertise. Responsibilities include: audited, reviewed and analyzed public utility companies various filings; prepared written testimony, schedules, financial statements, and spreadsheet models and analyses. Testified and stand cross-examination before the Arizona Corporation Commission.

January 2000 - April 2000: **JACKSON HEWITT TAX SERVICE**, Phoenix, Arizona
Tax Preparer. Interviewed clients, determined tax situation, and explained how the tax laws benefited them in their specific situation. Ensured that each customer received every deduction that they were entitled. Prepared individual and business income tax returns, which best utilized each specific situation that minimized their tax obligations.

May 1998 - November 1999: **BENEFITS CONSULTING**, Cypress, Texas
Consultant Assistant. The consulting firm specialized in alleged medical claim charges brought against the government of Harris County in Houston, Texas. Assisted in the review, examination, and analysis of the attested charges. Determined if the purported medical claim charges were prudent, customary, and reasonable for the alleged sustained injuries. The firm analyzed cases for both the County's Risk Department and Attorneys Office.

January 1992 - April 1998: **PHOENIX SERVICES**, Villa Rica, Georgia
Owner. Provided landscaping services primarily in a high growth gated community where the Property Owners' Association approved mandated ordinances to be strictly adhered and abided by. Coordinated and supervised all aspects of projects from inception to completion, from master planning to site design to installation.

May 1989 - October 1991: **GEORGIA PUBLIC SERVICE COMMISSION**, Atlanta, GA
Senior Auditor. The Public Service Commission (PSC) was responsible for regulating many intrastate telecommunications, electric, and gas utility industries operating in Georgia. It was the PSC's job to ensure that consumers received adequate and reliable service at reasonable rates. It must also assure the utility companies and investors an opportunity to earn a fair rate of return on prudent investments. The Commission participated significantly in Georgia's economic health and growth. I was promoted to the PSC's Electric/Gas Division where I examined, verified, and analyzed various financial documents, accounting records, reports, ledgers, and statements. In addition, I was assigned to automate the PSC's Electric Division where I utilized a computer application process that I had developed earlier while with the (PSC) Telecommunication Division. I was later ascribed to work in conjunction with the Engineering Department and established a procedure to track and compare costs of operation and maintenance (O&M) expenses of nuclear electric generating plants. This effort determined a comparative price per kilowatt-hour produced that influenced the awareness for the company to control the O&M costs, which benefited the consumer through lower prices.

- Developed computer application system that streamlined audit procedures by 30 – 40%.
- Various other schedules were implemented to track, maintain, and control costs.

GEORGIA PUBLIC SERVICE COMMISSION (continued)

November 1986 - April 1989: **Georgia Public Service Commission**, Atlanta, Georgia **Auditor**. Regulated telecommunications and also oversaw the deregulation process that was currently under way in that industry. Examined and analyzed accounting records to determine financial status of companies and prepared financial reports concerning audit findings. Reviewed data including payroll, time sheets, purchase vouchers, cash receipt ledgers, financial reports, and disbursements. Verified statewide telephone company transaction classifications and documentation.

- Developed computer application utilizing Lotus to completely automate and streamline the entire telecommunication audit process. The results saved 25% in field audit time and produced a product of professional appearance.
- Created, coordinated, and implemented "Operational Project Training" automated procedure-training program. Trained and supervised staff of five auditors.
- Computerized "Desk Audit Analysis" program that identified 11 independent telephone companies in the state of over-earning and resulted in \$4.1M annual savings to the Georgia ratepayers affected.

October 1985 - October 1986: **Georgia Public Service Commission**, Atlanta, Georgia **Junior Auditor**. Assisted in planning and performing telecommunication audit engagements. Examined financial records, internal management control, correspondence, bills, and records of services delivered in order to verify or recommend compliance with company specifications contained in contracts, agreements, regulations, and/or laws.

- As a special project, I was assigned to analyze the results of a survey designed to evaluate "Interest in Organizing a Multi-State Nuclear Management Review Group" by the Director of Utilities. Wrote the draft and findings for the speech that was presented to all participatory commissions.

PROFESSIONAL MEMBERSHIPS

- Elected Member of the National Honor Society for Public Affairs and Administration.
- Active Member of Delta Sigma Pi - Professional Business Fraternity.

SPECIAL TRAINING AND CERTIFICATES

- The Graduate School of Business Administration - Michigan State University; completed the Annual Regulatory Studies Program of the National Association of Regulatory Utility Commissioners.
- Completed Graduate Exit Paper on "Deregulation of the Electric Industry".
- Attended Eastern Utility Rate School in 2000 and 2005.

EDUCATION

- Currently enrolled at Arizona State University - West in the Post Baccalaureate Graduate Certificate Program in Accountancy with two courses remaining.
- Master of Public Administration, State University of West Georgia, 1997, GPA 3.5.
- BS Business Management & Administration, Minor in Economics, Sorrel School of Business, Troy State University, 1985.
- AA Business Administration, Miles Community College, 1981.

RESUME OF PUBLIC UTILITY RATE CASES & AUDITS PARTICIPATION

Residential Utility Consumer Office For Years 2000 To Present

Arizona-American Water Company – Docket No. WS-01303A-05-0405

Arizona Public Service Co. – Docket No. E-01345A-03-0437

Tucson Electric Power Company – Docket No. E-01933A-04-0408

UniSource Merger – Docket No. E-04230A-03-0933

Arizona-American Water Company – Docket No. WS-01303A-02-0867

Arizona Water Company (Eastern Group) – Docket No. W01445A-02-0619

Litchfield Park Service Company – Docket Nos. W-01427A-01-0487 &
SW-01428A-01-0487

Arizona Water Company (Northern Group) – Docket No. W-01445A-00-0962

Rio Verde Utilities, Inc. – Docket Nos. W-02156A-00-0321 &
SW-02156A-00-0323

Arizona-American Water Company (Paradise Valley) –
Docket Nos. W-01303A-05-0405 &
W-01303A-05-0910

Arizona-American Water Company (Mohave District) –
Docket No. WS-01303A-06-0014

Arizona-American Water Company (Sun City & Sun Cit West Wastewater) –
Docket No. WS-01303A-06-0491

Arizona-American Water Company - Docket No. W-01303A-07-0209

Chaparral City Water Company – Docket No. W-02113A-07-0551

Arizona-American Water Company - Docket No. W-01303A-08-0227

Residential Utility Consumer Office For Years 2000 To Present (cont'd)

Arizona Water Company - Docket No. W-01445A-08-0440

Far West Water & Sewer Company - WS-03478A-08-0608

Rio Rico Utilities, Inc. - WS-02676A-08-09-0257

Bella Vista Water Company – Docket No. W-02465A-09-0411

Goodman Water Company – Docket No. W-02500A-10-0382

Arizona Water Company – Western Group – Docket No. W-01445A-10-0517

Georgia Public Service Commission For Years 1985 – 1991

Atlanta Gas Light Company

Georgia Power Company

Atlanta Gas Light Company (Management Audit)

Georgia Power Company

Trenton Telephone Company

Fairmount Telephone Company

Ellijay Telephone Company

GTE, Inc.

ALL-TEL Telephone Company

Citizens Utilities Co.

Ball Ground Telephone Company

Lanett Telephone Company

Brantley Telephone Company

Blue Ridge Telephone Company

Waverly Hall Telephone Company

St. Marys Telephone Company

Darien Telephone Company

Statesboro Telephone Company

Statesboro Telephone Co-op

Wilkes Telephone Company

REVENUE SCHEDULES

TABLE OF CONTENTS TO TJC SCHEDULES

SCH. NO.	PAGE NO.	TITLE
TJC-1	1 & 2	REVENUE REQUIREMENT AND PROPERTY TAX CONVERSION COMPONENT FACTOR
TJC-2	1	RATE BASE
TJC-3	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
TJC-4 DIRECT PLANT	1	RATE BASE ADJUSTMENT NO. 1 - PLANT & ACCUMULATED DEPRECIATION RECONCILIATION ADJUSTMENT
TJC-5	1	RATE BASE ADJUSTMENT NO. 2 - CONVERT AIAC TO CIAC ADJUSTMENT
TJC-6	1	RATE BASE ADJUSTMENT NO. 3 - CAPITALIZE PLANT ITEMS THAT WERE PREVIOUSLY EXPENSED ADJUSTMENT RATE BASE ADJUSTMENT NO. 4 - INTENTIONALLY LEFT BLANK RATE BASE ADJUSTMENT NO. 5 - INTENTIONALLY LEFT BLANK RATE BASE ADJUSTMENT NO. 6 - INTENTIONALLY LEFT BLANK
TJC-7	1	OPERATING INCOME
TJC-8	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
TJC-9	1	OPERATING INCOME ADJUSTMENT NO. 1 - DEPRECIATION EXPENSE ADJUSTMENT
TJC-10	1	OPERATING INCOME ADJUSTMENT NO. 2 - PROPERTY TAX EXPENSE ADJUSTMENT
TJC-11	1	OPERATING INCOME ADJUSTMENT NO. 3 - REMOVE CAPITALIZED PLANT ITEMS THAT WERE EXPENSED
TJC-12	1	OPERATING INCOME ADJUSTMENT NO. 4 - RECLASSIFY PLANT ITEMS THAT WERE EXPENSED TO CWIP
TJC-13	1	OPERATING INCOME ADJUSTMENT NO. 5 - RATE CASE EXPENSE ADJUSTMENT
TJC-14	1	OPERATING INCOME ADJUSTMENT NO. 6 - MISCELLANEOUS EXPENSE - BANK FEES ADJUSTMENT
TJC-15	1	OPERATING INCOME ADJUSTMENT NO. 7 - SALARIES & WAGES - OFFICER & BD. OF DIRECTOR ADJUSTMENT OPERATING INCOME ADJUSTMENT NO. 8 - INTENTIONALLY LEFT BLANK OPERATING INCOME ADJUSTMENT NO. 9 - INTENTIONALLY LEFT BLANK OPERATING INCOME ADJUSTMENT NO. 10 - INTENTIONALLY LEFT BLANK
See RUCO WAR Testimony		OPERATING INCOME ADJUSTMENT NO. 11 - REMOVE COMPANT PROFORMA INCOME TAX ADJUSTMENT
TJC-16	1	COST OF CAPITAL - WAR TESTIMONY

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	\$ 9,863,271	\$ 9,832,800
2	Adjusted Operating Income (Loss)	\$ 441,784	\$ 656,839
3	Current Rate of Return (L2 / L1)	4.48%	6.68%
4	Required Operating Income (L5 X L1)	\$ 934,052	\$ 885,935
5	Required Rate of Return on Fair Value Rate Base	9.47%	9.01%
6	Operating Income Deficiency (L4 - L2)	\$ 492,268	\$ 229,097
7	Gross Revenue Conversion Factor (TJC-1, Page 2)	1.4041	1.0136
8	Required Increase in Gross Revenue Requirement (L7 X L6)	\$ 691,210	\$ 232,207
9	Adjusted Test Year Revenue	\$ 3,096,775	\$ 3,096,775
10	Proposed Annual Revenue (L8 + L9)	\$ 3,787,985	\$ 3,328,981
11	Required Percentage Increase in Revenue (L8 / L9)	22.32%	7.50%
12	Rate of Return on Common Equity	10.50%	9.40%

References:

Column (A): Company Schedules A-1 and C-1

Column (B): RUCO Schedule TJC-2, TJC-6, and TJC-14

Pima Utility Company - Wastewater Division
Docket No. SW-02199A-11-0329 et al.
Test Year Ended December 31, 2010

Wastewater Division
Direct Schedule TJC-1
Page 2 of 2

REVENUE REQUIREMENT - CONT'D
GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:	
1	Revenue	1.0000
2	Proposed Bad Debt Expense (Per Co. Workpapers)	-
4	Subtotal (L1 thru L2)	1.0000
5	Combined Federal, State, Property Tax Rate (L19)	0.0134
6	Subtotal (L4 - L5)	0.9866
7	Revenue Conversion Factor (L1 / L6)	1.0136

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant in Service	\$ 22,055,018	\$ (15,467)	\$ 22,039,551
2				
3	Less:			
4	Accumulated Depreciation	(11,546,833)	43,095	(11,503,738)
5				
6	Net Utility Plant in Service (L1 less L4)	\$ 10,508,186	\$ 27,628	\$ 10,535,814
7				
8	Advances in Aid of Construction	\$ (285,313)	\$ 285,313	\$ -
9				
10	Contributions in Aid of Construction (CIAC)	(937,694)	(343,412)	(1,281,106)
11	Accumulated Amortization of CIAC	578,092	-	578,092
12	Net CIAC (L10 less L11)	\$ (359,602)	\$ (343,412)	\$ (703,014)
13				
14	Accumulated Deferred Income Taxes (ADIT)	-	-	-
15	Customer Deposits	-	-	-
16				
17	Add:			
18	Allowance for Working Capital	\$ -	\$ -	\$ -
19				
20	Net Regulatory Asset / (Liability)	-	-	-
21				
22	Rounding	-	-	-
23	TOTAL RATE BASE (Sum L's 9, 10, 13, & 14 Thru 18)	<u>\$ 9,863,271</u>	<u>\$ (30,471)</u>	<u>\$ 9,832,800</u>

References:

Column (A): Company Schedule B-1
Column (B): Schedule TJC-3
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) ADJMT NO. 1 PLANT & ACCUM DEP.	(C) ADJMT NO. 2 CONVERT AIAC TO CIAC	(D) ADJMT NO. 3 CAP. / EXP. ITEMS	(E) ADJMT NO. 4 INTENTIONALLY LEFT BLANK	(F) ADJMT NO. 5 INTENTIONALLY LEFT BLANK	(G) ADJMT NO. 6 INTENTIONALLY LEFT BLANK	(H) RUCO ADJUSTED OCRB/FVRB
1	Gross Utility Plant in Service	\$ 22,055,018	\$ (37,858)	\$ -	\$ 22,391	\$ -	\$ -	\$ -	\$ 22,039,551
2									
3	Less:								
4	Accumulated Depreciation	(11,546,833)	43,884	-	(789)	-	-	-	(11,503,738)
5									
6	Net Utility Plant in Service (L1 less L4)	\$ 10,508,186	\$ 6,026	\$ -	\$ 21,602	\$ -	\$ -	\$ -	\$ 10,535,814
7									
8	Advances in Aid of Construction	(285,313)	-	285,313	-	-	-	-	-
9									
10	Contributions in Aid of Construction (CIAC)	(937,694)	-	(343,412)	-	-	-	-	(1,281,106)
11	Accumulated Amortization of CIAC	578,092	-	-	-	-	-	-	578,092
12	Net CIAC (L10 less L11)	\$ (359,602)	\$ -	\$ (343,412)	\$ -	\$ -	\$ -	\$ -	\$ (703,014)
13									
14	Accumulated Deferred Income Taxes (ADIT)	-	-	-	-	-	-	-	-
15	Customer Deposits	-	-	-	-	-	-	-	-
16									
17	Add:								
18	Allowance for Working Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
19									
20	Net Regulatory Asset / (Liability)	-	-	-	-	-	-	-	-
21									
22	Rounding	-	-	-	-	-	-	-	-
23	TOTAL RATE BASE (Sum L's 9, 10, 13, & 14 Thru 18)	\$ 9,863,271	\$ 6,026	\$ (58,099)	\$ 21,602	\$ -	\$ -	\$ -	\$ 9,832,800

References:

Column (A): Company Schedule B-2
Column (B): Adjustment No. 1 - Adjust Test-Year Plant and Accumulated Depreciation (See TJC-4 Direct Plant Schedules, Pages 1-13 and TJC Testimony)
Column (C): Adjustment No. 2 - Convert Gross AIAC to CIAC Per Company Data Response to Staff DR CSB 1-12
Column (D): Adjustment No. 3 - Capitalize Plant Items That Were Expensed Per Company Data Response to Staff DR CSB 1-34
Column (E): Adjustment No. 4 - Intentionally Left Blank
Column (F): Adjustment No. 5 - Intentionally Left Blank
Column (G): Adjustment No. 6 - Intentionally Left Blank
Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

RATE BASE ADJUSTMENT NO. 1
 PLANT AND ACCUMULATED DEPRECIATION

LINE NO.	ACCT NO.	DESCRIPTION	Depreciation Rate Before 12/31/2009	Allowed Depreciation Rate (See Note 1 Below)	Plant In Service Per Decision No. 62184 12/31/09	Accumulated Depre. Per Decision No. 62184 12/31/09	1998 Additions	1998 Refirements	1998 Adjustments	Depreciation Expense	Plant Balance 12/31/1998	Accum. Depre. 12/31/1998
1	351	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	76,709	-	-	-	-	-	76,729	-
4	354	Structures & Improvements	0.00%	0.00%	-	-	202,986	(480)	-	3,045	202,986	(3,046)
5	355	Collection Sump	3.00%	3.00%	-	-	-	-	-	-	-	-
6	360	Collection Sump - Force	3.00%	3.00%	-	-	-	-	-	-	-	-
7	361.1	Collection Sump - Gravity	3.00%	3.00%	2,559,261	(267,514)	28,319	-	-	425	28,319	(425)
8	361.2	Manholes & Cleanouts	3.00%	3.00%	1,118,725	(116,837)	15,254	-	-	77,007	2,574,535	(344,522)
9	362	Special Collecting Structures	3.00%	3.00%	-	-	21,257	-	-	33,881	1,139,982	(150,818)
10	363	Flow Measuring Devices	3.00%	3.00%	148,529	(16,600)	-	-	-	4,466	148,529	(20,116)
11	364	Flow Measuring Installations	3.00%	3.00%	-	-	-	-	-	-	-	-
12	365	Reuse Services	3.00%	3.00%	-	-	-	-	-	-	-	-
13	366	Reuse Meters and Meter Installations	3.00%	3.00%	-	-	-	-	-	-	-	-
14	367	Reserving Wells	3.00%	3.33%	295,254	(23,649)	-	-	-	-	228,251	(30,437)
15	368	Other Pumping Equipment - Lift Stations	3.00%	3.00%	756,635	(83,740)	432,170	-	-	28,319	1,139,982	(144,820)
16	371.1	Other Pumping Equipment	3.00%	3.00%	100,000	(10,453)	54,700	(65,250)	-	12,543	89,450	(51,855)
17	371.2	Pumping Equipment - Recharge Wells	3.00%	10.00%	-	-	838,888	-	-	-	838,888	(12,588)
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	-	-	-	-	-	-	-	-
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	16,790	(1,758)	104,135	-	-	-	120,925	(3,821)
20	375	Reuse Transmission and Distribution	3.00%	2.00%	8,247,786	(833,476)	606,867	-	-	2,066	9,154,665	(1,159,013)
21	376	Reuse Distribution Equipment	3.00%	3.00%	-	-	-	-	-	-	-	-
22	381	Plant Sewers	3.00%	3.00%	-	-	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%	-	-	500,000	-	-	7,500	500,000	(7,500)
25	390	Office Furniture & Equipment	3.00%	6.67%	-	-	1,870	-	-	28	1,870	(28)
26	391	Computers & Software	3.00%	20.00%	-	-	-	-	-	-	-	-
27	391.1	Computers & Software	3.00%	20.00%	-	-	-	-	-	-	-	-
28	392	Stores Equipment	3.00%	3.00%	3,261	(341)	554	-	-	07	3,845	(446)
29	393	Tools, Shop & Garage Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-
30	394	Laboratory Equipment	3.00%	10.00%	180,892	(18,906)	2,860	(47,661)	-	4,755	186,091	(24,000)
31	395	Power Operated Equipment	3.00%	3.00%	-	-	1,068	-	-	16	1,068	(16)
32	396	Miscellaneous Equipment	3.00%	3.00%	-	-	36,607	-	-	549	36,607	(549)
33	397	Miscellaneous Equipment	3.00%	3.00%	-	-	-	-	-	-	-	-
34	397	Miscellaneous Equipment	3.00%	3.00%	-	-	-	-	-	-	-	-
35	398	Other Tangible Plant	3.00%	3.00%	-	-	-	-	-	-	-	-
36					-	-	-	-	-	-	-	-
37					-	-	-	-	-	-	-	-
38					-	-	-	-	-	-	-	-
39		Post-In Service AFUDC		4.52%	-	-	2,847,554	(177,131)	-	450,139	16,416,325	(1,702,286)
40		TOTAL			\$ 716,722	\$ (1,228,766)	\$ 2,847,554	\$ (177,131)	\$ -	\$ 32,396	\$ 716,722	\$ (32,396)
41		Company As Filed			-	-	-	-	-	-	-	-
42		RUCO Adjustment			-	-	-	-	-	-	-	-
43					-	-	-	-	-	-	-	-
44					-	-	-	-	-	-	-	-
45					-	-	-	-	-	-	-	-
46					-	-	-	-	-	-	-	-
47					-	-	-	-	-	-	-	-
48					-	-	-	-	-	-	-	-
49					-	-	-	-	-	-	-	-
50					-	-	-	-	-	-	-	-
51					-	-	-	-	-	-	-	-
52					-	-	-	-	-	-	-	-
53					-	-	-	-	-	-	-	-
54					-	-	-	-	-	-	-	-

Note 1: Shaded cells are per Decision No. 62184. Other cells per Staff recommended depreciation rates.

RATE BASE ADJUSTMENT NO. 1
 PLANT AND ACCUMULATED DEPRECIATION

LINE NO.	MARUC ACCT NO.	DESCRIPTION	Depreciation Rate Before Jan. 2000	Allowed Depreciation Rate (See Note 1 below)	Additions	Retirements	Adjustments	Depreciation Expense	Plant Balance 12/31/1999	Accum. Depe. 12/31/1999
1	351	Organization Cost	0.00%	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	76,229	-
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	6,090	202,986	(9,134)
5	355	Power Generation Equipment	3.00%	3.33%	-	-	-	-	-	-
6	356	Collection Sumps	3.00%	2.00%	-	-	-	850	28,319	(1,274)
7	361.1	Collection Sumps - Gravity	3.00%	2.00%	400,340	-	-	83,241	2,974,875	(427,763)
8	361.2	Manholes & Cleanouts	3.00%	2.00%	129,190	-	-	36,137	1,269,172	(196,955)
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-
10	363	Services to Customers	3.00%	3.00%	213,312	-	-	7,696	362,841	(27,802)
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	2.00%	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	6.33%	-	-	-	6,788	226,251	(37,225)
16	371.1	Pumping Equipment - Lift Stations	3.00%	3.33%	54,090	(14,000)	-	2,684	1,175,569	(64,533)
17	371.2	Pumping Equipment - Lift Stations	3.00%	10.00%	-	-	-	26,370	919,097	(98,271)
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	82,615	(2,406)	-	-	-	-
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	3,628	120,925	(7,446)
20	375	Reuse Transmission and Distribution	3.00%	2.00%	73,313	(17,618)	-	275,465	9,210,960	(1,416,866)
21	380	Treatment & Disposal Equipment	3.00%	5.00%	-	-	-	-	-	-
22	381	Recharge Wells	3.00%	3.33%	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-
24	388	Other Plant & Misc Equipment	3.00%	6.67%	-	-	-	15,000	500,000	(22,500)
25	390	Office Furniture & Equipment	3.00%	6.67%	745	-	-	67	2,615	(95)
26	390.1	Computers & Software	3.00%	20.00%	1,512	-	-	23	1,512	(23)
27	391	Transportation Equipment	3.00%	3.33%	-	-	-	115	3,845	(563)
28	392	Storage Equipment	3.00%	4.00%	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	1,363	-	-	4,103	137,454	19,897
30	394	Laboratory Equipment	3.00%	10.00%	-	-	-	-	-	-
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	32	1,068	(46)
32	396	Communication Equipment	3.00%	10.00%	13,860	-	-	1,306	50,467	(1,855)
33	397	Medical Equipment	3.00%	10.00%	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%	10.00%	-	-	-	-	-	-
35		Sub Total			\$ 970,940	\$ (34,024)	\$ -	\$ 504,257	\$ 17,353,241	\$ (2,172,519)
36		Post-In Service AFUDC		4.52%	-	-	-	\$ 32,396	\$ 716,722	\$ (64,762)
37		TOTAL			\$ 970,940	\$ (34,024)	\$ -	\$ 536,652	\$ 18,069,963	\$ (2,237,310)
40		Company As Filed			-	-	-	-	-	-
41		RUCO Adjustment			-	-	-	-	-	-

Note 1: Shaded cells are per Decision No. 62184. Other cells per Staff recommended depreciation rates.

RATE BASE ADJUSTMENT NO. 1
PLANT AND ACCUMULATED DEPRECIATION

LINE NO.	NARUC ACCT NO.	DESCRIPTION	Depreciation Before Jan. 2000	Allowed Depreciation Rate (See Note 1 Below)	Additions	Retirements	Adjustments	Depreciation Expense	Plant Balance 12/30/2000	Accum. Depr. 12/31/2000
1	351	Organization Cost	0.00%		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352	Franchise Cost	0.00%		-	-	-	-	-	-
3	353	Land and Land Rights	0.00%		-	-	-	-	-	-
4	354	Structures & Improvements	3.00%		-	-	-	6,759	76,229	(16,864)
5	355	Power Generation Equipment	3.00%		-	-	-	-	202,966	-
6	356	Collection Sewers - Force	3.00%		-	-	-	-	-	-
7	357	Collection Sewers - Gravity	3.00%		-	-	-	-	-	-
8	358.1	Manholes & Cleanouts	2.00%		-	-	-	566	79,519	(1,841)
9	358.2	Special Collecting Structures	2.00%		-	-	-	59,469	2,974,075	(497,437)
10	359	Services to Customers	3.00%		-	-	-	25,383	1,269,172	(212,339)
11	360	Flow Measuring Devices	2.00%		515	-	-	-	-	-
12	361	Flow Measuring Installations	2.00%		-	-	-	7,262	363,356	(35,064)
13	366	Reuse Services	10.00%		-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	10.00%		-	-	-	-	-	-
15	368	Receiving Wells	3.00%		-	-	-	-	-	-
16	371.1	Pumping Equipment - Lift Stations	3.00%		101,860	(8,564)	-	8,077	226,251	(45,302)
17	371.2	Other Pumping Equipment	10.00%		6,562	-	-	12,000	1,068,452	(179,190)
18	371.3	Pumping Equipment - Recharge Wells	3.00%		20,717	(7,216)	-	8,275	96,042	(121,916)
19	374	Reuse Distribution Reservoirs	3.00%		-	-	-	92,565	932,598	-
20	375	Reuse Transmission and Distribution	2.50%		-	-	-	-	-	-
21	380	Transfer of Disposal Equipment	2.00%		-	-	-	-	-	-
22	391	Plant Sewers	3.00%		138,747	(25,869)	-	2,419	120,925	(9,667)
23	382	Outfall Sewer Lines	5.00%		-	-	-	463,366	9,324,858	(1,654,407)
24	389	Other Plant & Misc Equipment	3.00%		-	-	-	-	-	-
25	390	Office Furniture & Equipment	3.00%		-	-	-	-	500,000	(55,850)
26	390.1	Computer & Software	3.00%		-	-	-	-	300	(395)
27	391	Transportation Equipment	20.00%		3,752	-	-	300	3,872	(961)
28	392	Stores Equipment	3.00%		21,500	-	-	2,919	25,345	(3,462)
29	393	Tools, Shop & Garage Equipment	3.00%		-	-	-	-	-	-
30	394	Laboratory Equipment	10.00%		1,725	(1,365)	-	13,762	137,794	7,520
31	395	Process Control Equipment	10.00%		-	-	-	-	-	-
32	396	Communication Equipment	3.00%		643	-	-	69	1,711	(118)
33	397	Miscellaneous Equipment	10.00%		15,319	(1,917)	-	5,717	63,009	(8,665)
34	398	Other Tangible Plant	3.00%		-	-	-	-	-	-
35		Sub Total			\$ 314,731	\$ (44,861)	\$ -	\$ 85,056	\$ 17,623,021	\$ (2,981,629)
36		Post-In Service AFUDC			-	-	-	-	-	-
37		TOTAL			\$ -	\$ -	\$ -	\$ 32,396	\$ 716,722	\$ (97,188)
38		Company At Risk			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
39		RUCO Adjustment			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
40					\$ 314,731	\$ (44,861)	\$ -	\$ 85,056	\$ 18,339,743	\$ (3,078,810)

Note 1: Shaded cells are per Decision No. 62184. Other cells per Staff recommended depreciation rates.

**RATE BASE ADJUSTMENT NO. 1
PLANT AND ACCUMULATED DEPRECIATION**

LINE NO.	MARUC ACCT NO.	DESCRIPTION	Depreciation Rate Before Jan. 2000	Depreciation Rate (See Note 1 Below)	Additions	Retirements	Adjustments	Depreciation Expense	Plus Balance 12/31/2001	Accum. Depre. 12/31/2001
1	351	Organization Cost	0.00%	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	76,229	-
4	354	Structures & Improvements	3.00%	3.31%	-	-	-	6,759	202,986	(22,853)
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-
6	356	Collection Sump - Force	3.00%	2.00%	-	-	-	566	28,319	(2,467)
7	357	Collection Sump - Gravity	3.00%	2.00%	1,355	-	-	59,511	2,976,330	(546,771)
8	358	Collection Sump - Gravity	3.00%	2.00%	-	-	-	25,383	1,269,172	(237,722)
9	359	Collection Sump - Gravity	3.00%	2.00%	-	-	-	-	-	-
10	360	Collection Sump - Gravity	3.00%	2.00%	-	-	-	-	-	-
11	361	Collection Sump - Gravity	3.00%	2.00%	-	-	-	-	-	-
12	362	Special Collecting Structures	3.00%	2.00%	1,640	-	-	7,264	364,596	(42,347)
13	363	Services to Customers	3.00%	10.00%	-	-	-	-	-	-
14	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-
15	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-
16	366	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-
17	367	Reuse Meters and Meter Installations	3.00%	10.00%	-	-	-	-	-	-
18	368	Receiving Wells	3.00%	3.51%	-	-	-	-	-	-
19	369	Pumping Equipment - Lift Stations	3.00%	10.00%	11,409	(5,303)	-	8,077	226,251	(53,379)
20	370	Pumping Equipment - Lift Stations	3.00%	10.00%	11,207	(495)	-	127,151	1,271,254	(1,000,527)
21	371	Pumping Equipment - Lift Stations	3.00%	10.00%	47,141	(6,651)	-	10,140	108,754	(30,352)
22	372	Pumping Equipment - Lift Stations	3.00%	10.00%	-	-	-	95,284	973,088	(210,549)
23	373	Reuse Distribution Reservoirs	3.00%	2.00%	-	-	-	-	-	-
24	374	Reuse Distribution Reservoirs	3.00%	2.00%	-	-	-	-	-	-
25	375	Reuse Distribution Reservoirs	3.00%	2.00%	-	-	-	-	-	-
26	376	Treatment & Disposal Equipment	3.00%	5.00%	66,653	(15,672)	-	2,419	125,925	(12,285)
27	377	Treatment & Disposal Equipment	3.00%	5.00%	-	-	-	467,217	9,375,639	(2,306,253)
28	378	Reuse Sewers Lines	3.00%	5.00%	-	-	-	-	-	-
29	379	Reuse Sewers Lines	3.00%	5.00%	-	-	-	-	-	-
30	380	Office Furniture & Equipment	3.00%	3.33%	5,438	-	-	33,531	505,438	(89,381)
31	381	Computers & Software	3.00%	6.67%	-	-	-	425	6,367	(620)
32	382	Transportation Equipment	3.00%	20.00%	1,681	-	-	64	5,563	(1,506)
33	383	Storage Equipment	3.00%	20.00%	-	-	-	5,069	25,346	(6,551)
34	384	Tools, Shop & Garage Equipment	3.00%	10.00%	-	-	-	-	-	-
35	385	Laboratory Equipment	3.00%	10.00%	9,757	-	-	14,267	147,551	(6,748)
36	386	Power Operated Equipment	3.00%	5.00%	-	-	-	-	-	-
37	387	Communication Equipment	3.00%	10.00%	9,560	(680)	-	86	1,711	(203)
38	388	Manufacturing Equipment	3.00%	10.00%	-	-	-	6,831	72,749	(11,906)
39	389	Other Tangible Plant	3.00%	10.00%	-	-	-	-	-	-
40	390	Sub Total			\$ 165,851	\$ (28,601)	\$ -	\$ 871,244	\$ 17,760,071	\$ (3,824,066)
41	391	Post-in Service AFUDC		4.52%	\$ -	\$ -	\$ -	\$ 32,396	\$ 716,722	\$ (129,583)
42	392	TOTAL			\$ 165,851	\$ (28,601)	\$ -	\$ 903,640	\$ 18,476,793	\$ (3,953,649)
43	393	Company As Filed								
44	394	RUCO Adjustment								

Note 1: Shaded cells are per Decision No. 62184. Other cells per Staff recommended depreciation rates.

RATE BASE ADJUSTMENT NO. 1
 PLANT AND ACCUMULATED DEPRECIATION

LINE NO.	NARUC ACCT NO.	DESCRIPTION	Depreciation Rate Jan. 2000	Allowed Depreciation Rate (See Note 1 below)	2002			Plant Balance 12/31/2002	Accum. Depre. 12/31/2002
					Additions	Retirements	Adjustments		
1	351	Organization Cost	0.00%	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	76,229	-
4	354	Structures & Improvements	3.00%	3.00%	1,351	-	-	204,337	(29,495)
5	355	Plant Equipment	3.00%	3.00%	-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%	-	-	-	28,319	(9,973)
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	230,146	-	-	3,206,376	(606,597)
8	361.2	Manholes & Cleanouts	3.00%	2.00%	134,175	-	-	1,403,347	(264,447)
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-
10	363	Sanitary Structures	3.00%	2.00%	-	-	-	-	-
11	364	Flow Measuring Devices	3.00%	10.00%	106,676	-	-	47,674	(52,714)
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	6.33%	-	-	-	-	-
15	370	Receiving Wells	3.00%	10.00%	-	-	-	-	-
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	11,844	(1,681)	-	220,251	(61,456)
17	371.2	Other Pumping Equipment	3.00%	10.00%	-	-	-	1,575	(4,850)
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	16,176	(8,760)	-	97,650	(269,469)
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.50%	-	-	-	-	-
21	380	Plant and Miscellaneous Equipment	3.00%	5.00%	-	-	-	120,625	(14,704)
22	381	Plant Sewers	3.00%	5.00%	84,553	(19,766)	-	9,440,626	(2,756,699)
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-
24	389	Other Plant & Misc. Equipment	3.00%	6.67%	287,579	-	-	793,017	(132,665)
25	390	Office Furniture & Equipment	3.00%	6.67%	-	-	-	6,367	(1,244)
26	391	Construction Equipment	3.00%	20.00%	1,726	-	-	7,291	(2,790)
27	391	Transportation Equipment	3.00%	4.00%	-	-	-	23,445	(13,620)
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	5,634	(2,853)	-	150,332	(18,789)
30	394	Laboratory Equipment	3.00%	10.00%	1,993	-	-	1,993	(100)
31	395	Power Operated Equipment	3.00%	1.00%	-	-	-	86	(289)
32	396	Computer Equipment	3.00%	10.00%	-	-	-	1,711	-
33	397	Miscellaneous Equipment	3.00%	10.00%	1,592	(3,919)	-	70,422	(15,045)
34	398	Other Tangible Plant	3.00%	10.00%	-	-	-	-	-
35		Sub Total			\$ 883,450	\$ (36,979)	\$ -	\$ 19,606,542	\$ (4,660,500)
36		Post-In Service AFUDC		4.52%	-	-	-	32,386	\$ (161,979)
37		TOTAL			\$ 883,450	\$ (36,979)	\$ -	\$ 19,638,928	\$ (4,822,479)
38		Company As Filed			-	-	-	-	-
39		RUCO Adjustment			-	-	-	-	-

Note 1: Shaded cells are per Decision No. 62104. Other cells per Staff recommended depreciation rates.

RATE BASE ADJUSTMENT NO. 1
PLANT AND ACCUMULATED DEPRECIATION

LINE NO.	NARUC ACCT NO.	DESCRIPTION	Depreciation Rate Before 4/1/2000	Allowed Depreciation Rate (See Note 1 below)	2003				Plant Balance 12/30/2003	Accum. Depr. 12/31/2003
					Additions	Retirements	Adjustments	Depreciation Expense		
1	351	Organization Cost	0.00%	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	76,229	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	201,282	(33,134)
4	354	Structures & Improvements	3.00%	3.00%	-	(3,056)	-	6,754	-	-
5	355	Power Generation Equipment	3.00%	3.00%	-	-	-	-	28,319	(3,540)
6	356	Collection Sewer Equipment	3.00%	2.00%	-	-	-	566	3,585,237	(678,814)
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	376,881	-	-	67,916	1,560,132	(294,062)
8	361.2	Manholes & Cleanouts	3.00%	2.00%	156,785	-	-	29,635	-	-
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-
10	363	Services to Customers	3.00%	2.00%	-	-	-	-	-	-
11	364	Sanitary Sewers	3.00%	10.00%	89,529	-	-	10,329	561,203	(61,043)
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.37%	-	-	-	8,077	228,251	(69,533)
16	371.1	Recharge Wells - Lift Stations	3.00%	10.00%	34,524	(20,117)	-	1,912	1,301,129	(538,446)
17	371.2	Other Pumping Equipment	3.00%	10.00%	34,853	(13,353)	-	10,914	1,001,524	(365,217)
18	371.3	Pumping Equipment - Recharge Wells	3.00%	2.50%	-	-	-	2,446	123,627	(17,149)
19	374	Reuse Distribution Reservoirs	3.00%	2.00%	2,702	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.00%	-	-	-	-	-	-
21	375	Reuse Distribution Equipment	3.00%	2.00%	76,286	(16,849)	-	473,567	9,502,063	(3,213,616)
22	381	Plant Structures	3.00%	3.00%	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%	-	-	-	52,894	793,017	(185,579)
25	390	Office Furniture & Equipment	3.00%	6.67%	-	-	-	425	6,367	(1,669)
26	390.1	Computers & Software	3.00%	20.00%	4,307	(3,872)	-	1,502	7,726	(420)
27	391	Industrial Process Equipment	3.00%	4.00%	13,147	-	-	8,444	38,092	(20,064)
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	3,384	(113)	-	15,197	153,603	(33,872)
30	394	Laboratory Equipment	3.00%	10.00%	-	-	-	189	1,993	(299)
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	86	1,711	(374)
32	396	Communication Equipment	3.00%	10.00%	-	-	-	-	-	-
33	397	Miscellaneous Equipment	3.00%	10.00%	31,795	(10,731)	-	8,066	91,486	(12,410)
34	398	Other Tangible Plant	3.00%	10.00%	-	-	-	-	-	-
35		Sub Total			\$ 834,140	\$ (66,091)	\$ -	\$ 923,353	\$ 19,372,592	\$ (5,536,202)
36		Post-In Service AFUDC		4.52%	-	-	-	32,396	716,722	(194,375)
37		TOTAL			\$ 834,140	\$ (66,091)	\$ -	\$ 955,749	\$ 20,089,314	\$ (5,730,577)
40		Company As Filed								
41		RUCO Adjustment								
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Note 1: Shaded cells are per Decision No. 62164. Other cells per Staff recommended depreciation rates.

RATE BASE ADJUSTMENT NO. 1
 PLANT AND ACCUMULATED DEPRECIATION

LINE NO.	MARUC ACCT NO.	DESCRIPTION	Depreciation Rate Before Jan. 2000	Allowed Depreciation Rate (See Note 1 Below)	Additions	Retirements	Adjustments	Depreciation Expense	Plant Balance 12/29/2004	Accum. Depr. 12/31/2004
1	351	Organization Cost	0.00%	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	15,259	-	-	6,703	91,528	(39,836)
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	-	201,262	-
5	355	Water Reclamation Equipment	3.00%	3.00%	-	-	-	-	1,566	-
6	356	Collection Sewers - Gravity	3.00%	3.00%	-	-	-	-	3,263	(4,106)
7	357	Collection Sewers - Gravity	3.00%	3.00%	10,421	-	-	71,896	28,319	(7,550)
8	358	Manholes & Cleanouts	3.00%	3.00%	6,566	-	-	31,270	1,566,898	(325,353)
9	359	Special Collecting Structures	3.00%	3.00%	-	-	-	-	-	-
10	360	Services to Customers	3.00%	3.00%	-	-	-	-	-	-
11	361	Flow Measuring Structures	3.00%	3.00%	3,435	-	-	11,258	584,638	(72,301)
12	362	Flow Measuring Structures	3.00%	3.00%	-	-	-	-	-	-
13	363	Reuse Services	3.00%	3.00%	-	-	-	-	-	-
14	364	Reuse Meters and Meter Installations	3.00%	3.00%	-	-	-	-	-	-
15	365	Restoring Wells	3.00%	3.33%	-	-	-	-	-	-
16	366	Other Pumping Equipment - Lift Stations	3.00%	3.33%	75,713	(28,063)	-	8,077	226,251	(77,610)
17	367	Other Pumping Equipment - Lift Stations	3.00%	3.33%	25,243	-	-	132,430	1,346,478	(640,613)
18	368	Pumping Equipment - Recharge Wells	3.00%	3.00%	24,716	(9,721)	-	100,802	1,125,516	(2,465)
19	369	Reuse Distribution Reservoirs	3.00%	3.00%	-	-	-	-	-	-
20	370	Reuse Transmission and Distribution	3.00%	3.00%	-	-	-	-	-	-
21	371	Plant Equipment & Disposal Equipment	3.00%	3.00%	-	-	-	-	-	-
22	372	Plant Equipment & Disposal Equipment	3.00%	3.00%	379,961	(119,949)	-	2,473	123,627	(19,622)
23	373	Other Plant & Misc Equipment	3.00%	3.33%	-	-	-	481,628	9,783,076	(3,576,297)
24	374	Office Furniture & Equipment	3.00%	3.33%	-	-	-	-	-	-
25	375	Computers & Software	3.00%	6.67%	-	-	-	52,864	793,017	(238,473)
26	376	Other Plant & Misc Equipment	3.00%	6.67%	-	-	-	425	6,367	(2,034)
27	377	Computers & Software	3.00%	20.00%	-	-	-	1,545	7,726	(1,965)
28	378	Stores Equipment	3.00%	4.00%	1,909	(1,261)	-	7,863	39,740	(26,666)
29	379	Tools, Shop & Garage Equipment	3.00%	4.00%	1,585	(1,000)	-	15,380	154,188	(48,262)
30	380	Laboratory Equipment	3.00%	10.00%	-	-	-	189	1,893	(468)
31	381	Power Operated Equipment	3.00%	5.00%	-	-	-	66	1,711	(460)
32	382	Communications Equipment	3.00%	10.00%	25,038	(2,652)	-	10,298	114,472	(20,656)
33	383	Mechanical Equipment	3.00%	10.00%	-	-	-	-	-	-
34	384	Other Tangible Plant	3.00%	10.00%	-	-	-	-	-	-
35	385	Sub Total			\$ 546,795	\$ (161,045)	\$ -	\$ 347,060	\$ 19,758,342	\$ 6,322,217
36	386	Post-In Service AFUDC		4.52%	-	-	-	\$ 32,396	\$ 716,722	\$ (226,771)
37	387	TOTAL			\$ 546,795	\$ (161,045)	\$ -	\$ 379,456	\$ 20,475,064	\$ 6,095,446
38	388	Company As Filed			-	-	-	-	-	-
39	389	RUCO Adjustment			-	-	-	-	-	-

Note 1: Shaded cells are per Decision No. 62184. Other cells per Staff recommended depreciation rates.

**RATE BASE ADJUSTMENT NO. 1
PLANT AND ACCUMULATED DEPRECIATION**

LINE NO.	MARUC ACCT NO.	DESCRIPTION	Depreciation Rate Before Jan. 2000	Allowed Depreciation Rate (See Note 1 Below)	2005				Plant Balance 12/31/2005	Accum. Depr. 12/31/2005
					Additions	Retirements	Adjustments	Depreciation Expense		
1	351	Organization Cost	0.00%	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-
3	353	Intangible Rights	0.00%	0.00%	-	-	-	-	91,538	-
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	6,703	201,282	(46,539)
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-
6	356	Collection Sewers - Force	3.00%	2.00%	69,204	-	-	1,258	97,523	(5,365)
7	357	Collection Sewers - Gravity	3.00%	2.00%	125,259	-	-	74,196	3,620,951	(822,489)
8	358	Sanitary Collection	3.00%	2.00%	125,259	-	-	32,601	1,599,194	(350,075)
9	359	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-
10	360	Services to Customers	3.00%	2.00%	50,514	-	-	11,798	615,152	(84,069)
11	361	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-
12	362	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-
13	363	Flow Meters	3.00%	10.00%	-	-	-	-	-	-
14	364	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-
15	365	Receiving Wells	3.00%	8.57%	-	-	-	8,077	226,251	(85,607)
16	366	Pumping Equipment - Lift Stations	3.00%	10.00%	75,225	(62,283)	-	133,845	1,328,420	(679,374)
17	367	Other Pumping Equipment	3.00%	10.00%	3,343	-	-	11,453	116,201	(13,918)
18	368	Pressure Transducers	3.00%	10.00%	71,431	(15,449)	-	104,451	1,072,466	(265,369)
19	369	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-
20	370	Reuse Transmission and Distribution	3.00%	2.00%	-	(692,440)	-	2,473	123,627	(22,095)
21	371	Treatment & Disposal Equipment	3.00%	5.00%	427,259	-	-	484,024	9,597,695	(3,467,881)
22	372	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-
23	373	Sanitary Lines	3.00%	5.00%	-	-	-	-	-	-
24	374	Other Plant & Misc. Equipment	3.00%	6.67%	-	-	-	52,684	793,017	(291,367)
25	375	Office Furniture & Equipment	3.00%	6.67%	-	(2,813)	-	331	3,554	388
26	376	Computers & Software	3.00%	20.00%	-	(1,891)	-	1,376	6,035	(1,650)
27	377	Transportation Equipment	3.00%	20.00%	5,500	-	-	8,498	45,240	(35,164)
28	378	Tools, Shop & Garage Equipment	3.00%	20.00%	-	-	-	-	-	-
29	379	Laboratory Equipment	3.00%	10.00%	8,313	(2,885)	-	15,690	159,616	(61,067)
30	380	Power Operated Equipment	3.00%	5.00%	-	-	-	199	1,993	(699)
31	381	Communication Equipment	3.00%	5.00%	-	-	-	86	1,711	(545)
32	382	Other Tangible Plant	3.00%	10.00%	5,966	(3,150)	-	11,569	117,308	(29,095)
33	383	Other Tangible Plant	3.00%	10.00%	-	-	-	-	-	-
34	384	Other Tangible Plant	3.00%	10.00%	-	-	-	-	-	-
35	385	Sub Total			\$ 1,074,365	\$ (713,711)	\$ -	\$ 961,572	\$ 20,118,965	\$ (6,570,077)
36	386	Post-In Service AFUDC		4.52%	-	-	-	-	-	-
37	387				-	-	-	-	-	-
38	388				-	-	-	-	-	-
39	389	TOTAL			\$ -	\$ -	\$ -	\$ 32,396	\$ 716,722	\$ (259,167)
40	400				\$ 1,074,365	\$ (713,711)	\$ -	\$ 993,968	\$ 20,835,717	\$ (6,829,244)
41	401	Company As Filed			-	-	-	-	-	-
42	402	RUCO Adjustment			-	-	-	-	-	-
43	403				-	-	-	-	-	-
44	404				-	-	-	-	-	-
45	405				-	-	-	-	-	-
46	406				-	-	-	-	-	-
47	407				-	-	-	-	-	-
48	408				-	-	-	-	-	-
49	409				-	-	-	-	-	-
50	410				-	-	-	-	-	-
51	411				-	-	-	-	-	-
52	412				-	-	-	-	-	-
53	413				-	-	-	-	-	-
54	414				-	-	-	-	-	-

Note 1: Shaded cells are per Decision No. 62184. Other cells per Staff recommended depreciation rates.

**RATE BASE ADJUSTMENT NO. 1
 PLANT AND ACCUMULATED DEPRECIATION**

LINE NO.	NARUC ACCT NO.	DESCRIPTION	Depreciation Rate Before Jan. 2008	Allowed Depreciation Rate (See Note Below)	2008				Plant Balance 12/31/2008	Accum. Depr. 12/31/2008
					Additions	Retirements	Adjustments	Depreciation Expense		
1	351	Organization Cost	0.00%	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	91,528	-
4	354	Buildings & Improvements	3.00%	3.00%	-	-	-	6,703	201,262	(53,242)
5	355	Equipment	3.00%	3.00%	-	-	-	-	1,950	(7,315)
6	360	Collection Sewers - Force	3.00%	3.00%	-	-	-	76,419	3,820,951	(888,909)
7	361.1	Collection Sewers - Gravity	3.00%	3.00%	-	-	-	33,964	1,699,194	(391,997)
8	361.2	Manholes & Cleanouts	3.00%	3.00%	-	-	-	-	615,152	(96,402)
9	362	Special Collecting Structures	3.00%	3.00%	-	-	-	-	-	-
10	363	Sanitary Sewers	3.00%	3.00%	-	-	-	-	-	-
11	364	Flow Measuring Devices	3.00%	3.00%	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	3.00%	-	-	-	-	-	-
13	366	Reuse Services	3.00%	3.00%	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	3.00%	-	-	-	-	-	-
15	368	Reuse Pumps	3.00%	3.00%	-	-	-	-	-	-
16	371.1	Pumping Equipment - Lift Stations	3.00%	3.00%	10,630	(5,000)	-	8,077	229,251	(63,755)
17	371.2	Other Pumping Equipment	3.00%	3.00%	-	-	-	133,123	1,334,050	(607,489)
18	371.3	Pumping Equipment - Recharge Wells	3.00%	3.00%	58,153	(19,952)	-	116,201	1,116,201	(255,538)
19	374	Reuse Distribution Reservoirs	3.00%	3.00%	-	-	-	109,208	1,111,659	(655,619)
20	375	Reuse Transmission and Distribution	3.00%	3.00%	-	-	-	-	-	-
21	376	Reuse Transmission and Distribution	3.00%	3.00%	3,069	-	-	2,903	128,716	(24,598)
22	380	Plant Sewers	3.00%	3.00%	72,662	(10,214)	-	461,439	9,559,863	(3,339,166)
23	381	Outfall Sewer Lines	3.00%	3.00%	-	-	-	-	-	-
24	388	Other Plant & Misc Equipment	3.00%	3.00%	-	-	-	52,894	793,017	(344,262)
25	390	Office Furniture & Equipment	3.00%	3.00%	-	-	-	1,237	3,554	151
26	391.1	Transportation Vehicle	3.00%	3.00%	-	-	-	1,207	6,035	(2,857)
27	391	Trucks & Equipment	3.00%	3.00%	-	-	-	9,046	43,240	(44,224)
28	392	Tools, Shop & Garage Equipment	3.00%	3.00%	-	-	-	-	-	-
29	393	Laboratory Equipment	3.00%	3.00%	-	-	-	15,962	159,616	(77,029)
30	394	Power Operated Equipment	3.00%	3.00%	-	-	-	199	1,993	(897)
31	395	Construction Equipment	3.00%	3.00%	-	-	-	69	1,068	-
32	396	Miscellaneous Equipment	3.00%	3.00%	18,527	(643)	-	12,558	131,845	(41,652)
33	397	Miscellaneous Equipment	3.00%	3.00%	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%	3.00%	-	-	-	-	-	-
35		Sub Total			\$ 169,411	\$ (34,849)	\$ -	\$ 95,505	\$ 20,344,557	\$ (7,504,733)
36		Post-In Service AFUDC		4.52%	\$ -	\$ -	\$ -	\$ 30,386	\$ 716,722	\$ (291,553)
37		TOTAL			\$ 169,411	\$ (34,849)	\$ -	\$ 1,001,901	\$ 20,361,279	\$ (7,796,286)
38		Company As Filed								
39		RUCO Adjustment								

Note 1: Shaded cells are per Decision No. 62164. Other cells per Staff recommended depreciation rates.

RATE BASE ADJUSTMENT NO. 1
PLANT AND ACCUMULATED DEPRECIATION

LINE NO.	NARUC ACCT NO.	DESCRIPTION	Depreciation Rate		Additions	Retirements	2007 Adjustments		Depreciation Expense	Plant Balance 12/31/2007	Accum. Depr. 12/31/2007
			Before Jan. 2000	Allowed Rate (See Note 1 Below)							
1	351	Organization Cost	0.00%	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	91,528	(59,944)
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	6,703	6,703	201,282	-
5	355	Power Generation Equipment	3.00%	3.00%	-	-	-	-	-	37,523	(9,368)
6	356	Collection Sump - Gravity	3.00%	3.00%	-	-	-	1,950	1,950	3,820,961	-
7	361.1	Collection Sump - Gravity	3.00%	2.00%	-	-	-	76,419	76,419	33,864	(425,981)
8	361.2	Manholes & Cleanouts	3.00%	2.00%	-	-	-	-	-	1,699,184	-
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	615,152	(108,705)
10	363	Services to Customers	3.00%	2.00%	-	-	-	-	-	-	-
11	364	Flow Measuring Equipment	3.00%	10.00%	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.33%	-	-	-	-	-	-	-
16	371.1	Receiving Equipment - Lift Stations	3.00%	10.00%	29,215	(14,835)	-	8,077	8,077	226,251	(101,342)
17	371.2	Other Pumping Equipment	3.00%	10.00%	11,170	(23,789)	-	134,124	134,124	926,718	-
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	21,213	(7,228)	-	10,659	10,659	1,125,644	(6,439)
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	1,125,644	(760,252)
20	375	Reuse Transmission and Distribution	3.00%	2.50%	-	-	-	-	-	132,130	(37,486)
21	380	Treatment & Disposal Equipment	3.00%	5.00%	5,414	-	-	2,588	2,588	9,669,478	-
22	381	Plant Sewers	3.00%	5.00%	33,470	(3,675)	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-
24	383	Other Plant & Misc Equipment	3.00%	3.33%	-	-	-	-	-	793,017	(397,156)
25	384	Structures & Equipment	3.00%	6.67%	-	-	-	52,864	52,864	3,554	(4,064)
26	390.1	Computers & Software	3.00%	20.00%	-	-	-	1,207	1,207	6,035	-
27	391	Transportation Equipment	3.00%	20.00%	-	(1,509)	-	-	-	43,331	(43,331)
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	4.00%	2,574	-	-	16,043	16,043	161,239	(62,121)
30	394	Laboratory Equipment	3.00%	10.00%	-	(951)	-	1,963	1,963	92,121	-
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	53	53	1,068	(25)
32	396	Communication Equipment	3.00%	10.00%	-	(13,427)	-	12,713	12,713	120,418	(40,939)
33	397	Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%	10.00%	-	-	-	-	-	-	-
35		Sub Total			\$ 103,057	\$ (71,814)		\$ 966,787	\$ 20,275,800	\$ (8,396,706)	
36		Post-In Service AFUDC		4.52%	\$ -	\$ -		\$ 32,366	\$ 716,722	\$ (323,958)	
37		TOTAL			\$ 103,057	\$ (71,814)		\$ 999,153	\$ 20,992,522	\$ (8,723,685)	
38		Company As Filed									
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Note 1: Shaded cells are per Decision No. 62184. Other cells per Staff recommended depreciation rates.

**RATE BASE ADJUSTMENT NO. 1
 PLANT AND ACCUMULATED DEPRECIATION**

LINE NO.	ACCT NO.	DESCRIPTION	Depreciation Rate Jan. 2009	Allowed Depreciation Rate (See Note 1 Below)	2008			Plant Balance 12/31/2008	Accum. Depr. 12/31/2008
					Additions	Retirements	Adjustments		
1	351	Organization Cost	0.00%	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	-
4	354	Structures & Improvements	0.00%	0.00%	49,150	-	-	91,528	(67,466)
5	355	Equipment - General	3.00%	3.00%	-	-	-	250,432	-
6	360	Collection Sewers - Force	3.00%	3.00%	-	-	-	97,523	(11,216)
7	361.1	Collection Sewers - Gravity	3.00%	3.00%	33,581	-	-	3,654,512	(1,052,081)
8	361.2	Manholes & Cleanouts	3.00%	3.00%	15,412	-	-	34,138	(460,119)
9	362	Special Collecting Structures	3.00%	3.00%	-	-	-	-	-
10	363	Sanitary & Combined Sewers	3.00%	3.00%	-	-	-	632,249	(121,179)
11	364	Flow Measuring Devices	3.00%	3.00%	17,097	-	-	-	-
12	365	Flow Measuring Installations	3.00%	3.00%	-	-	-	-	-
13	366	Reuse Services	3.00%	3.00%	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	3.00%	-	-	-	-	-
15	371	Receiving Wells	3.00%	3.00%	-	-	-	8,777	(109,519)
16	371.1	Pumping Equipment - Lift Stations	3.00%	3.00%	29,252	(11,030)	-	135,754	(1,059,511)
17	371.2	Other Pumping Equipment	3.00%	3.00%	3,616	-	-	9,939	(116,377)
18	371.3	Pumping Equipment - Recharge Wells	3.00%	3.00%	262,374	(660)	-	125,639	(895,001)
19	374	Reuse Distribution Reservoirs	3.00%	3.00%	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	3.00%	2,055	-	-	2,963	(29,850)
21	376	Reuse Sewer & Disposal Equipment	3.00%	3.00%	170,263	(79,777)	-	468,736	(4,626,119)
22	381	Plant Sewer Lines	3.00%	3.00%	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.00%	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	3.00%	179,493	-	-	58,880	(456,036)
25	390	Office Furniture & Equipment	3.00%	3.00%	-	-	-	237	(333)
26	391	Computers & Software	3.00%	3.00%	-	-	-	1,305	(5,370)
27	391.1	Transportation Equipment	3.00%	3.00%	982	-	-	7,017	(21,881)
28	392	Stores Equipment	3.00%	3.00%	-	(21,500)	1,500	-	(21,500)
29	393	Tools, Shop & Garage Equipment	3.00%	3.00%	-	(6,463)	-	15,801	(101,458)
30	394	Laboratory Equipment	3.00%	3.00%	-	-	-	199	(1,285)
31	395	Power Operated Equipment	3.00%	3.00%	-	(1,068)	-	27	1,016
32	396	Construction Equipment	3.00%	3.00%	-	(6,106)	-	11,707	(46,939)
33	397	Miscellaneous Equipment	3.00%	3.00%	-	-	-	-	-
34	398	Other Tangible Plant	3.00%	3.00%	-	-	-	-	-
35		Sub Total			\$ 763,255	\$ (127,434)	\$ 1,500	\$ 945,302	\$ (9,262,074)
36		Post-In Service AFUDC		4.52%	-	-	-	-	-
37					-	-	-	-	-
38		TOTAL			\$ 763,255	\$ (127,434)	\$ 1,500	\$ 945,302	\$ (9,262,074)
39		Company As Filed			-	-	-	-	-
40		RUCO Adjustment			-	-	-	-	-
41					-	-	-	-	-
42					-	-	-	-	-
43					-	-	-	-	-
44					-	-	-	-	-
45					-	-	-	-	-
46					-	-	-	-	-
47					-	-	-	-	-
48					-	-	-	-	-
49					-	-	-	-	-
50					-	-	-	-	-
51					-	-	-	-	-
52					-	-	-	-	-
53					-	-	-	-	-
54					-	-	-	-	-

Note 1: Shaded cells are per Decision No. 62/184. Other cells per Staff recommended depreciation rates.

**RATE BASE ADJUSTMENT NO. 1
PLANT AND ACCUMULATED DEPRECIATION**

LINE NO.	MARUC ACCT NO.	DESCRIPTION	Depreciation Rate Before Jul. 2000	Allowed Depreciation Rate (See Note 1 Below)	2009				Plant Balance 1/1/2010	Accum. Depr. 12/31/2009
					Additions	Relayments	Adjustments	Depreciation Expense		
1	351	Organization Cost	0.00%	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-
3	353	Intangible Rights	0.00%	0.00%	-	-	-	-	91,528	-
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	8,339	250,432	(75,805)
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%	-	-	-	1,960	97,523	(13,167)
7	361	Collection Sewers - Gravity	3.00%	2.00%	-	-	-	77,796	3,254,512	(1,124,172)
8	361.1	Sanitary Collection Sewers	3.00%	2.00%	-	-	-	34,350	1,118,371	(484,446)
9	362	Special Collecting Structures	3.00%	2.00%	37,655	-	-	-	-	-
10	363	Services to Customers	3.00%	2.00%	-	-	-	12,645	632,249	(133,824)
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-
13	366	Flow Meters	3.00%	2.00%	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.57%	-	-	-	8,077	226,251	(117,966)
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	211,774	(90,630)	-	142,722	1,467,796	(1,103,603)
17	371.2	Other Pumping Equipment	3.00%	10.00%	-	-	-	10,120	1,101,166	(126,497)
18	372	Sanitary Collection Sewer Storage Wells	3.00%	10.00%	21,325	(14,635)	-	159,677	1,380,166	(1,086,150)
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.50%	-	-	-	2,684	134,165	(32,533)
21	380	Treatment & Disposal Equipment	3.00%	5.00%	102,914	(57,810)	-	480,126	9,825,069	(5,269,435)
22	381	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-
23	382	Sanitary Collection Lines	3.00%	3.33%	-	-	-	-	-	-
24	389	Other Plant & Misc. Equipment	3.00%	6.67%	-	-	-	64,866	972,510	(520,903)
25	390	Office Furniture & Equipment	3.00%	6.67%	-	-	-	237	3,554	(960)
26	390.1	Computers & Software	3.00%	20.00%	-	-	-	1,403	7,017	(6,773)
27	391	Transportation Equipment	3.00%	20.00%	-	-	-	-	21,831	(21,831)
28	392	Construction Equipment	3.00%	20.00%	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	-	-	-	15,478	154,776	(116,536)
30	394	Laboratory Equipment	3.00%	10.00%	-	-	-	199	1,993	(1,469)
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	-	-	-
32	396	Communication Equipment	3.00%	10.00%	5,115	-	-	-	-	1,016
33	397	Industrial Equipment	3.00%	10.00%	-	-	-	11,627	116,827	(57,966)
34	398	Other Tangible Plant	3.00%	10.00%	-	-	-	-	-	-
35		Sub Total			\$ 344,894	\$ (163,075)	\$ -	\$ 1,020,942	\$ 21,093,439	\$ (10,119,841)
36		Post-In Service AFUDC		4.52%	-	-	-	-	-	-
37		TOTAL			\$ -	\$ -	\$ -	\$ 32,396	\$ 716,722	\$ (388,750)
38		Company As Filed			\$ 344,894	\$ (163,075)	\$ -	\$ 1,053,338	\$ 21,810,161	\$ (10,508,591)
39		RUCO Adjustment			-	-	-	-	-	-

Note 1: Shaded cells are per Decision No. 62184. Other cells per Staff recommended depreciation rates.

**RATE BASE ADJUSTMENT NO. 1
PLANT AND ACCUMULATED DEPRECIATION**

LINE NO.	NARUC ACCT NO.	DESCRIPTION	Depreciation Rate Before Jan. 2000	Allowed Depreciation Rate (See Note 1 below)	2010				Plant Balance 12/31/2010	Accum. Depr. 12/31/2010
					Additions	Retirements	Adjustments	Depreciation Expense		
1	351	Organization Cost	0.00%	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	91,528	-
4	354	Structures & Improvements	0.00%	0.00%	-	-	-	-	250,432	(84,144)
5	355	Plant Equipment - Pump	3.00%	3.00%	-	-	-	-	1,206,262	(15,117)
6	356	Collection Sewers - Force	3.00%	2.00%	-	-	-	-	97,523	(15,117)
7	357	Collection Sewers - Gravity	3.00%	2.00%	-	-	-	-	3,854,512	(1,206,262)
8	358	Manholes & Cleanouts	3.00%	2.00%	73,351	-	-	77,090	35,101	1,791,722
9	359	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	(529,550)
10	360	Sanitary Collection	3.00%	2.00%	-	-	-	-	-	-
11	361	Sanitary Collection	3.00%	2.00%	-	-	-	-	-	-
12	362	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	632,249	(146,469)
13	363	Reuse Services	3.00%	10.00%	-	-	-	-	-	-
14	364	Reuse Meters and Meter Installations	3.00%	10.00%	-	-	-	-	-	-
15	365	Receiving Wells	3.00%	8.33%	-	-	-	-	-	-
16	366	Receiving Wells	3.00%	8.33%	-	-	-	-	-	-
17	367	Receiving Wells	3.00%	8.33%	-	-	-	-	-	-
18	368	Other Pumping Equipment - Lift Stations	3.00%	10.00%	65,322	(31,460)	-	8,077	226,251	(126,073)
19	369	Other Pumping Equipment	3.00%	10.00%	2,243	-	-	16,072	1,525,430	(1,226,525)
20	370	Pumping Equipment - Recharge Wells	3.00%	10.00%	52,091	(20,374)	-	10,232	1,455,535	(1,30,007)
21	371	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-
22	372	Reuse Transmission and Distribution	3.00%	2.00%	-	-	-	-	134,185	(35,217)
23	373	Plant Equipment & Deprecial Equipment	3.00%	2.00%	80,127	(21,123)	-	462,726	9,884,073	(5,130,041)
24	374	Plant Equipment	3.00%	3.00%	-	-	-	-	-	-
25	375	Other Plant & Misc Equipment	3.00%	3.33%	-	-	-	-	-	-
26	376	Office Furniture & Equipment	3.00%	6.67%	-	-	-	-	972,510	(585,789)
27	377	Computers & Software	3.00%	6.67%	2,975	-	-	336	6,529	(896)
28	378	Other Plant & Misc Equipment	3.00%	20.00%	3,667	-	-	1,790	10,894	(8,563)
29	379	Storage Equipment	3.00%	4.00%	-	-	-	-	21,631	(21,631)
30	380	Tools, Shop & Garage Equipment	3.00%	4.00%	-	-	-	-	-	-
31	381	Laboratory Equipment	3.00%	10.00%	-	-	-	-	154,778	(132,414)
32	382	Power Operated Equipment	3.00%	10.00%	-	-	-	-	1,993	(1,694)
33	383	Communication Equipment	3.00%	5.00%	-	-	-	-	-	-
34	384	Manufacturing Equipment	3.00%	10.00%	-	-	-	-	11,883	(1,016)
35	385	Other Tangible Plant	3.00%	10.00%	-	-	-	-	118,827	(69,449)
36	386	Sub Total			\$ 279,976	\$ (72,977)	\$ -	\$ 1,034,839	\$ 21,300,438	\$ (11,081,803)
37	387	Post-in Service AFUDC		4.52%	-	-	-	-	-	-
38	388	TOTAL			\$ 279,976	\$ (72,977)	\$ -	\$ 1,034,839	\$ 21,300,438	\$ (11,081,803)
39	389	Company As Filed			-	-	-	-	716,722	\$ (421,146)
40	390	RUCO Adjustment			-	-	-	-	22,056,018	\$ (11,546,833)
41	391				-	-	-	-	\$ 137,683	\$ -
42	392				-	-	-	-	\$ 22,056,018	\$ (11,546,833)
43	393				-	-	-	-	\$ 137,683	\$ -
44	394				-	-	-	-	\$ 22,056,018	\$ (11,546,833)
45	395				-	-	-	-	\$ 137,683	\$ -
46	396				-	-	-	-	\$ 22,056,018	\$ (11,546,833)
47	397				-	-	-	-	\$ 137,683	\$ -
48	398				-	-	-	-	\$ 22,056,018	\$ (11,546,833)
49	399				-	-	-	-	\$ 137,683	\$ -
50	400				-	-	-	-	\$ 22,056,018	\$ (11,546,833)
51	401				-	-	-	-	\$ 137,683	\$ -
52	402				-	-	-	-	\$ 22,056,018	\$ (11,546,833)
53	403				-	-	-	-	\$ 137,683	\$ -
54	404				-	-	-	-	\$ 22,056,018	\$ (11,546,833)

Note 1: Shaded cells are per Decision No. 62164. Other cells per Staff recommended depreciation rates.

RATE BASE ADJUSTMENT NO. 2
CONVERT ADVANCES IN AID OF CONSTRUCTION (AIAC) TO CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	AIAC as Company Filed	\$ 285,313	\$ (285,313)	\$ -
2	RUCO Recommended AIAC Adjustment (See TJC-3, Column (C) Line 8)			\$ 285,313
3	Net CIAC as Company Filed	\$ 359,602	\$ (343,412)	\$ (703,014)
4	RUCO Recommended CIAC Adjustment (See TJC-3, Column (C) Line 10)			\$ (343,412)
<u>RUCO CIAC ADJUSTMENT CALCULATION:</u>				
5	Company Net CIAC as Filed			\$ 359,602
6	RUCO's Recommended Net AIAC Conversion to CIAC as Company Filed			285,313
7	Plus: Unpaid AIAC Refunds as Calculated by Company (See Co. Response to Staff Sewer DR CSB 1-12)			58,099
8	RUCO's Recommended Gross AIAC Conversion to CIAC Adjustment (Line 6 + Line 7)			\$ 343,412
9	RUCO Recommended CIAC Adjustment (Line 8)			\$ (343,412)

RATE BASE ADJUSTMENT NO. 3
CAPITALIZE EXPENSED ITEMS TO PLANT ACCOUNTS

Line No.	Description	Amount
1		
2	<u>Plant:</u>	
3	Capitalize Expensed Items to NARUC Plant Accounts:	
4	371.1 - Pumping Equipment - Lift Stations	\$ 9,179
5	380 - Treatment & Disposal Equipment	13,212
6		
7	Total RUCO Plant Adjustment Per Company DR Response to RUCO DR 3.04	\$ 22,391
8		
9		Depre.
10	<u>Accumulated Depreciation:</u>	<u>Rate</u>
11	371.1 - Pumping Equipment - Lift Stations	10.00%
12	380 - Treatment & Disposal Equipment	5.00%
13		
14	Total RUCO Accumulated Depreciation Adjustment	\$ (789)
15		
16		
17		
18		
19		
20	Remove Materials & Supplies Expense and Capitalize to Plant Accounts (Per RUCO DR 3.04)	\$ (22,391)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'M'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
1	Revenues:					
2	Flat Rate Revenues	\$ 2,997,389	\$ -	\$ 2,997,389	\$ 232,207	\$ 3,229,595
3	Metered Revenues	93,356	-	93,356	-	93,356
4	Other Revenues	6,030	-	6,030	-	6,030
5	Total Sewer Revenues	\$ 3,096,775	\$ -	\$ 3,096,775	\$ 232,207	\$ 3,328,981
6						
7	Operating Expenses:					
8	Salaries and Wages	\$ 345,644	\$ -	\$ 345,644	\$ -	\$ 345,644
9	Salaries and Wages - Off. And Dir.	90,294	(83,209)	7,085	-	7,085
10	Employee Pensions and Benefits	115,720	-	115,720	-	115,720
11	Purchased Power	134,337	-	134,337	-	134,337
12	Chemicals	84,059	-	84,059	-	84,059
13	Materials and Supplies	184,532	(22,391)	162,141	-	162,141
14	Office Supplies and Expense	188,906	-	188,906	-	188,906
15	Contractual Services - Engineering	20,305	(19,524)	781	-	781
16	Contractual Services - Accounting	3,067	-	3,067	-	3,067
17	Contractual Services - Legal	108	-	108	-	108
18	Contractual Services - Other	61,500	-	61,500	-	61,500
19	Contractual Services - Water Testing	15,729	-	15,729	-	15,729
20	Rents - Equipment	698	-	698	-	698
21	Transportation Expenses	28,808	-	28,808	-	28,808
22	Insurance - Vehicle	3,067	-	3,067	-	3,067
23	Insurance - General Liability	20,916	-	20,916	-	20,916
24	Insurance - Worker's Comp	222	-	222	-	222
25	Reg. Comm. Exp.	-	-	-	-	-
26	Reg. Comm. Exp. - Rate Case	50,000	(12,500)	37,500	-	37,500
27	Bad Debt Expense	9,509	-	9,509	-	9,509
28	Miscellaneous Expense	2,174	6,354	8,528	-	8,528
29	Depreciation Expense	1,010,700	3,021	1,013,722	-	1,013,722
30	Amortization of Deferred Operating Costs	62,925	-	62,925	-	62,925
31	Taxes Other Than Income	10,449	-	10,449	-	10,449
32	Property Taxes	125,916	(1,401)	124,515	3,110	127,625
33	Income Tax	85,405	(85,405)	-	-	-
34						
35	Total Operating Expenses	\$ 2,654,991	\$ (215,055)	\$ 2,439,936	\$ 3,110	\$ 2,443,046
36						
37	Operating Income	\$ 441,784	\$ 215,055	\$ 656,839	\$ 229,097	\$ 885,935

References:

Column (A): Company Schedule C-1
Column (B): TJC-7, Columns (B) Thru (I)
Column (C): Column (A) + Column (B)
Column (D): TJC-7, Columns B Thru K
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJMT NO. 1 DEPRECIATION EXPENSE	(C) ADJMT NO. 2 PROPERTY TAX EXPENSE	(D) ADJMT NO. 3 CAPITALIZE EXPENSED ITEMS	(E) ADJMT NO. 4 RECLASSIFY EXP. ITEMS TO CWIP	(F) ADJMT NO. 5 RATE CASE EXPENSE	(G) ADJMT NO. 6 MISCELLANEOUS EXPENSE	(H) ADJMT NO. 7 WAGES/SALARY EXPENSE	(I) ADJMT NO. 8 INTENTIONALLY LEFT BLANK	(J) ADJMT NO. 9 INTENTIONALLY LEFT BLANK	(K) ADJMT NO. 10 INTENTIONALLY LEFT BLANK	(L) ADJMT NO. 11 INCOME TAXES	(M) RUCO AS ADJTD.
1	Revenues:													
2	Flat Rate Revenues	\$2,997,389	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,997,389
3	Metered Revenues	83,358	-	-	-	-	-	-	-	-	-	-	-	93,356
4	Other Revenues	6,030	-	-	-	-	-	-	-	-	-	-	-	6,030
5	Total Sewer Revenues	\$3,086,775	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$3,086,775
6														
7	Operating Expenses:													
8	Salaries and Wages	\$ 345,644	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 345,644
9	Salaries and Wages - Off. And Dir.	90,284	-	-	-	-	-	-	(83,209)	-	-	-	-	7,065
10	Employee Pensions and Benefits	115,720	-	-	-	-	-	-	-	-	-	-	-	115,720
11	Purchased Power	134,337	-	-	-	-	-	-	-	-	-	-	-	134,337
12	Chemicals	84,059	-	-	-	-	-	-	-	-	-	-	-	84,059
13	Materials and Supplies	184,532	-	-	(22,391)	-	-	-	-	-	-	-	-	162,141
14	Office Supplies and Expense	189,906	-	-	-	(19,524)	-	-	-	-	-	-	-	188,906
15	Contractual Services - Engineering	20,305	-	-	-	-	-	-	-	-	-	-	-	781
16	Contractual Services - Accounting	3,067	-	-	-	-	-	-	-	-	-	-	-	3,067
17	Contractual Services - Legal	108	-	-	-	-	-	-	-	-	-	-	-	108
18	Contractual Services - Other	61,500	-	-	-	-	-	-	-	-	-	-	-	61,500
19	Contractual Services - Water Testing	15,729	-	-	-	-	-	-	-	-	-	-	-	15,729
20	Rents - Equipment	688	-	-	-	-	-	-	-	-	-	-	-	688
21	Transportation Expenses	28,808	-	-	-	-	-	-	-	-	-	-	-	28,808
22	Insurance - Vehicle	3,067	-	-	-	-	-	-	-	-	-	-	-	3,067
23	Insurance - General Liability	20,916	-	-	-	-	-	-	-	-	-	-	-	20,916
24	Insurance - Worker's Comp	222	-	-	-	-	-	-	-	-	-	-	-	222
25	Reg. Comm. Exp.	50,000	-	-	-	-	(12,500)	-	-	-	-	-	-	37,500
26	Bad Debt Exp.	9,509	-	-	-	-	-	-	-	-	-	-	-	9,509
27	Bad Debt Exp. - Rate Case	2,174	-	-	-	-	-	6,354	-	-	-	-	-	8,528
28	Miscellaneous Expense	1,010,700	3,021	-	-	-	-	-	-	-	-	-	-	1,013,721
29	Depreciation Expense	82,925	-	-	-	-	-	-	-	-	-	-	-	82,925
30	Amortization of Deferred Operating Costs	10,449	-	-	-	-	-	-	-	-	-	-	-	10,449
31	Taxes Other Than Income	125,916	-	(1,401)	-	-	-	-	-	-	-	-	-	124,515
32	Property Taxes	85,405	-	-	-	-	-	-	-	-	-	-	(85,405)	-
33	Income Tax													
34														
35	Total Operating Expenses	\$2,854,881	\$ 3,021	\$ (1,401)	\$ (22,391)	\$ (19,524)	\$ (12,500)	\$ 6,354	\$ (83,209)	\$ -	\$ -	\$ -	\$ (85,405)	\$2,439,835
36														
37	Operating Income	\$ 441,784	\$ (3,021)	\$ 1,401	\$ 22,391	\$ 19,524	\$ 12,500	\$ (6,354)	\$ 83,209	\$ -	\$ -	\$ -	\$ 85,405	\$ 656,839

ADJUSTMENTS:

- 1- Depreciation Expense
- 2- Property Tax Expense
- 3- Remove Expensed Plant Items and Capitalize to Rate Base
- 4- Reclassify Expensed Plant Items to CWIP
- 5- Rate Case Expense
- 6- Miscellaneous Expense - Bank Charges
- 7- Reduce Salaries and Wages of Officer and Bd. Of Director
- 8- Intentionally Left Blank
- 9- Intentionally Left Blank
- 10- Intentionally Left Blank
- 11- Remove Company Proforma Income Tax Adjustment

REFERENCE:

- TJC Testimony and Schedule TJC-9, Page 1 of 1
TJC Testimony and Schedule TJC-10, Page 1 of 1
TJC Testimony and Schedule TJC-11, Page 1 of 1
TJC Testimony and Schedule TJC-12, Page 1 of 1
TJC Testimony and Schedule TJC-13, Page 1 of 1
TJC Testimony and Schedule TJC-14, Page 1 of 1
TJC Testimony and Schedule TJC-15, Page 1 of 1
N/A
N/A
N/A
WAR Testimony

OPERATING INCOME ADJUSTMENT NO. 1
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	NARUC ACCOUNT NO.	ACCOUNT NAME	(A) RUCO TOTAL GROSS PLANT	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	351	Organization Cost	\$ -	0.00%	\$ -
2	352	Franchise Cost	-	0.00%	-
3	353	Land and Land Rights	91,528	0.00%	-
4	354	Structures & Improvements	250,432	3.33%	8,339
5	355	Power Generation Equipment	-	5.00%	-
6	360	Collection Sewers - Force	97,523	2.00%	1,950
7	361.1	Collection Sewers - Gravity	3,854,512	2.00%	77,090
8	361.2	Manholes & Cleanouts	1,791,722	2.00%	35,834
9	362	Special Collecting Structures	-	2.00%	-
10	363	Services to Customers	632,249	2.00%	12,645
11	364	Flow Measuring Devices	-	10.00%	-
12	365	Flow Measuring Installations	-	10.00%	-
13	366	Reuse Services	-	2.00%	-
14	367	Reuse Meters and Meter Installations	-	8.33%	-
15	370	Receiving Wells	226,251	3.57%	8,077
16	371.1	Pumping Equipment - Lift Stations	1,530,817	10.00%	153,082
17	371.2	Other Pumping Equipment	103,441	10.00%	10,344
18	371.3	Pumping Equipment - Recharge Wells	1,425,535	10.00%	142,553
19	374	Reuse Distribution Reservoirs	-	2.50%	-
20	375	Reuse Transmission and Distribution	134,185	2.00%	2,684
21	380	Treatment & Disposal Equipment	9,897,285	5.00%	494,864
22	381	Plant Sewers	-	5.00%	-
23	382	Outfall Sewer Lines	-	3.33%	-
24	389	Other Plant & Misc Equipment	972,510	6.67%	64,866
25	390	Office Furniture & Equipment	6,529	6.67%	435
26	390.1	Computers & Software	10,884	20.00%	2,177
27	391	Transportation Equipment	21,831	20.00%	-
28	392	Stores Equipment	-	4.00%	-
29	393	Tools, Shop & Garage Equipment	154,776	10.00%	15,478
30	394	Laboratory Equipment	1,993	10.00%	199
31	395	Power Operated Equipment	-	5.00%	-
32	396	Communication Equipment	118,827	10.00%	11,883
33	397	Miscellaneous Equipment	-	10.00%	-
34	398	Other Tangible Plant	-	0.00%	-
35		Post-in-Service AFUDC	716,722	4.52%	32,396
36		TEST YEAR GROSS PLANT AND DEPRECIATION EXPENSE	<u>\$ 22,039,551</u>		<u>\$ 1,074,898</u>
37		Less: AMORTIZATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	(1,281,106)	4.78%	(61,176)
38		AMORTIZATION OF REGULATORY ASSETS/(LIABILITIES)			-
39		RUCO TOTAL DEPRECIATION EXPENSE			<u>\$ 1,013,722</u>
40		Company As Filed			1,010,700
41		Difference			<u>\$ 3,021</u>
42		RUCO Adjustment (See TJC-7, Column (C) Line 29)			<u>\$ 3,021</u>

* Fully Depreciated

**RUCO OPERATING INCOME ADJUSTMENT NO. 2
PROPERTY TAXES**

LINE NO.	Property Tax Calculation	(A)	(B)
		RUCO AS ADJUSTED	RUCO RECOMMENDED
1	RUCO Adjusted Test Year Revenues - 2010	\$ 3,096,775	\$ 3,096,775
2	Multiplied by 2	2	2
3	Subtotal (Line 1 * Line 2)	\$ 6,193,549	\$ 6,193,549
4a	RUCO Adjusted Test Year Revenues - 2010	3,096,775	
4b	RUCO Recommended Revenue, Per Schedule TJC-7		3,328,981
5	Subtotal (Line 3 + Line 4a)	\$ 9,290,324	\$ 9,522,530
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 3,096,775	\$ 3,174,177
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 6,193,549	\$ 6,348,354
10	Plus: 10% of CWIP Per Company Schedule E Plus RUCO's Reclassification of Plant to CWIP	3,971	3,971
11	Less: Net Book Value of Licensed Vehicles (Fully Depreciated)	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 6,197,520	\$ 6,352,325
13	Assessment Ratio	20.0%	20.0%
14	Assessed Value (Line 12 * Line 13)	\$ 1,239,504	\$ 1,270,465
15	Composite Property Tax Rate (Per RUCO Effective Property Tax Calculation Analysis W/P)	10.0455%	10.0455%
16	RUCO Adjusted Test Year Property Tax Expense (Line 14 * Line 15)	\$ 124,515	
17	Company Proposed Property Tax (Per Company C-1 Schedule)	125,916	
18	RUCO Test Year Adjustment (Line 16-Line 17)	\$ (1,401)	
19	Property Tax - RUCO Recommended Revenue (Line 14 * Line 15)		\$ 127,625
20	RUCO Test Year Adjusted Property Tax Expense (Line 16)		124,515
21	Increase/(Decrease) to Property Tax Expense		\$ 3,110
22	Increase/(Decrease) to Property Tax Expense		\$ 3,110
23	Increase in Revenue Requirement		232,207
24	Increase/(Decrease) to Property Tax per Dollar Increase in Revenue (Line 22 / Line 23)		0.013394

OPERATING INCOME ADJUSTMENT NO. 3
REMOVE EXPENSED PLANT ITEMS FROM MATERIALS & SUPPLIES EXPENSE AND CAPITALIZE

<u>Line</u> <u>No.</u>	<u>Description</u>	<u>Amount</u>
1		
2	Remove Materials & Supplies Expense and Capitalize to Plant Accounts (Per RUCO DR 3.04)	\$ (22,391)
3		
4		
5	Capitalize Expensed Items to NARUC Plant Accounts:	
6	371.1 - Pumping Equipment - Lift Stations	\$ 9,179
7	380 - Treatment & Disposal Equipment	<u>13,212</u>
8		
9	Total RUCO Plant Adjustment	\$ 22,391
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		

OPERATING INCOME ADJUSTMENT NO. 4
REMOVE EXPENSED PLANT ITEMS FROM CONTRACTUAL SERVICES, ENGINEERING EXPENSE AND CAPITALIZE TO CWIP

Line		
No.	Description	Amount
1		
2	Remove Materials & Supplies Expense and Capitalize to Plant Accounts (Per RUCO DR 3.05)	\$ (19,524)
3		
4		
5	Capitalize Expensed Items to CWIP:	
6	Hunt Highway Force Main	\$ (19,524)
7	No Rate Base Recognition in this Case	19,524
8		
9	Total RUCO Plant Adjustment	\$ -
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		

Pima Utility Company - Wastewater Division
Docket No. SW-02199A-11-0329 et al.
Test Year Ended December 31, 2010

Wastewater Division
Direct Schedule TJC-13
Page 1 of 1

OPERATING INCOME ADJUSTMENT NO. 5
RATE CASE EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	<u>\$ 200,000</u>	<u>\$ (50,000)</u>	<u>\$ 150,000</u>
2	Allocation Factor			
3	Wastewater Division (Line 1 X Line 2)			<u>\$ -</u>
4	Normalized Over 4 Years			4
5	RUCO Adjusted Rate Case Expense (Line 3 / 4 Years)			<u>\$ 37,500</u>
6	Company Rate Case Expenses As Filed (Company Sch. C-2)			<u>\$ 50,000</u>
7	RUCO Pro Forma Rate Case Expense (Lines 5 - 6)			<u>\$ (12,500)</u>
8	RUCO Adjustment (See TJC-7, Column (D) Line 26)			<u>\$ (12,500)</u>

OPERATING INCOME ADJUSTMENT NO. 6
MISCELLANEOUS EXPENSE - BANK ANALYSIS FEES

<u>Line</u> <u>No.</u>	<u>Description</u>	<u>Date</u>	<u>Amount</u>
1			
2	JPMorgan Chase Bank	Jan. 2010	\$ 1,067
3	JPMorgan Chase Bank	Feb. 2010	913
4	JPMorgan Chase Bank	Mar. 2010	1,097
5	JPMorgan Chase Bank	Apr. 2010	1,136
6	JPMorgan Chase Bank	May 2010	1,069
7	JPMorgan Chase Bank	Jun. 2010	1,066
8	JPMorgan Chase Bank	Jul. 2010	1,015
9	JPMorgan Chase Bank	Aug. 2010	1,073
10	JPMorgan Chase Bank	Sep. 2010	1,080
11	JPMorgan Chase Bank	Oct. 2010	1,068
12	JPMorgan Chase Bank	Nov. 2010	1,007
13	JPMorgan Chase Bank	Dec. 2010	1,116
14			
15	Total Bank Charges Recorded 100% to Water Division (Per Staff Water DR 1.38)		\$ 12,707
16			
17	RUCO Miscellaneous Expense Adjustment to Water Division (Line 15 X -50%)		\$ (6,354)
18			
19	RUCO Miscellaneous Expense Adjustment to Sewer Division (Line 15 X 50%)		\$ 6,354

**OPERATING INCOME ADJUSTMENT NO. 7
SALARIES AND WAGES - OFFICER and DIRECTOR**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Salaries and Wages Expense - Officer and Director	\$ 90,294	\$ (83,209)	\$ 7,085
2	RUCO Adjustment (See TJC-7, Column (D) Line 26)			\$ (83,209)

RUCO SALARY AND WAGE EXPENSE ADJUSTMENT CALCULATION:

3	Company as Filed Salary and Wage Expense - Officer and Director	\$ 90,294
4	Number of Hours Per Company Response to Staff DR 1.29	56.68
5	Hourly Pay Rate Per Company Response to Staff DR 1.29 (Line 3 / 4)	\$ 1,593
6	RUCO Recommended Hourly Pay Rate (See Testimony of TJC)	125
7	RUCO Recommended Salary and Wage Expense (Line 4 X Line 6)	\$ 7,085

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) CAPITAL RATIO	(C) COST RATE	(D) WEIGHTED COST RATE
1	Long-Term Debt	\$ 6,125,000	22.53%	7.696%	1.73%
2	Common Equity	21,063,072	77.47%	9.40%	7.28%
3	Total Capitalization	<u>\$ 27,188,072</u>	<u>100.00%</u>		
4	WEIGHTED AVERAGE COST OF CAPITAL				<u>9.01%</u>

References:

Columns (A) Thru (D): WAR Testimony

RATE DESIGN SCHEDULES

RATE SUMMARY

Present Rates												
A	B	C	D	E	F	G	H	I	J	K	L	M
Meter Size	Number of Bills	Total Gallons Consumed (Midrange)	Minimum Gallons	Monthly Minimum Charge	Metered Minimum Revenue B X E	Tier One Gallons Subject to Commodity Charge (Midrange)	Tier One Commodity Revenue per 1,000 Gal	Tier Two Gallons Subject to Commodity Charge (Midrange)	Tier Two Commodity Revenue per 1,000 Gal	Tier Three Gallons Subject to Commodity Charge (Midrange)	Tier Three Commodity Revenue per 1,000 Gal	Total Metered Revenue F + H + J + L
5/8 X 3/4 - INCH	116,962	0	0	\$22.73	\$2,657.501	0	\$0	0	\$0	0	\$0	\$2,657.501
3/4 - INCH	0	0	0	35.33	0	0	0	0	0	0	0	0
1 - INCH	2,452	0	0	59.33	147.376	0	0	0	0	0	0	147.376
1 1/2 - INCH	0	0	0	117.33	0	0	0	0	0	0	0	0
2 - INCH	0	0	0	187.33	0	0	0	0	0	0	0	0
3 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
4 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
6 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
8 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
10 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
	119,414	0	0	0.00	\$2,804.876	0	\$0	0	\$0	0	\$0	\$2,804.876

Company Proposed Rates												
A	B	C	D	E	F	G	H	I	J	K	L	M
Meter Size	Number of Bills	Total Gallons Consumed (Midrange)	Minimum Gallons	Monthly Minimum Charge	Metered Minimum Revenue B X E	Tier One Gallons Subject to Commodity Charge (Midrange)	Tier One Commodity Revenue per 1,000 Gal	Tier Two Gallons Subject to Commodity Charge (Midrange)	Tier Two Commodity Revenue per 1,000 Gal	Tier Three Gallons Subject to Commodity Charge (Midrange)	Tier Three Commodity Revenue per 1,000 Gal	Total Metered Revenue F + H + J + L
5/8 X 3/4 - INCH	116,962	0	0	\$27.79	\$3,248.795	0	\$0	0	\$0	0	\$0	\$3,248.795
3/4 - INCH	0	0	0	43.19	0	0	0	0	0	0	0	0
1 - INCH	2,452	0	0	72.53	180.167	0	0	0	0	0	0	180.167
1 1/2 - INCH	0	0	0	143.44	0	0	0	0	0	0	0	0
2 - INCH	0	0	0	229.01	0	0	0	0	0	0	0	0
3 - INCH	0	0	0	444.50	0	0	0	0	0	0	0	0
4 - INCH	0	0	0	694.69	0	0	0	0	0	0	0	0
6 - INCH	0	0	0	1,389.37	0	0	0	0	0	0	0	0
8 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
10 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
	119,414	0	0	0.00	\$3,428.962	0	\$0	0	\$0	0	\$0	\$3,428.962

RUCO Recommended Rates												
A	B	C	D	E	F	G	H	I	J	K	L	M
Meter Size	Number of Bills	Total Gallons Consumed (Midrange)	Minimum Gallons	Monthly Minimum Charge	Metered Minimum Revenue B X E	Tier One Gallons Subject to Commodity Charge (Midrange)	Tier One Commodity Revenue per 1,000 Gal	Tier Two Gallons Subject to Commodity Charge (Midrange)	Tier Two Commodity Revenue per 1,000 Gal	Tier Three Gallons Subject to Commodity Charge (Midrange)	Tier Three Commodity Revenue per 1,000 Gal	Total Metered Revenue F + H + J + L
5/8 X 3/4 - INCH	116,962	0	0	\$23.76	\$2,777.667	0	\$0	0	\$0	0	\$0	\$2,777.667
3/4 - INCH	0	0	0	35.64	0	0	0	0	0	0	0	0
1 - INCH	2,452	0	0	59.40	147.554	0	0	0	0	0	0	147.554
1 1/2 - INCH	0	0	0	118.80	0	0	0	0	0	0	0	0
2 - INCH	0	0	0	190.08	0	0	0	0	0	0	0	0
3 - INCH	0	0	0	356.40	0	0	0	0	0	0	0	0
4 - INCH	0	0	0	594.00	0	0	0	0	0	0	0	0
6 - INCH	0	0	0	1,188.00	0	0	0	0	0	0	0	0
8 - INCH	0	0	0	2,376.00	0	0	0	0	0	0	0	0
10 - INCH	0	0	0	4,752.00	0	0	0	0	0	0	0	0
	119,414	0	0	0.00	\$2,925.222	0	\$0	0	\$0	0	\$0	\$2,925.222

PIMA UTILITY COMPANY - WASTEWATER DIVISION RESIDENTIAL RATE DESIGN
 TEST YEAR ENDED DECEMBER 31, 2010
 REVENUE COMPARISON

DOCKET NO. SW-02199A-11-0329 et al.
 DIRECT SCHEDULE TJC RD-2

LINE NO.	METER SIZE	PERESNT RATES MONTHLY MINIMUM	PERESNT RATES COMMODITY CHARGE	PERESNT RATES TOTAL REVENUE	COMPANY PROPOSED RATES MONTHLY MINIMUM	COMPANY PROPOSED RATES COMMODITY CHARGE	COMPANY PROPOSED RATES TOTAL REVENUE	RUCO RECOMMENDED RATES MONTHLY MINIMUM	RUCO RECOMMENDED RATES COMMODITY CHARGE	RUCO RECOMMENDED RATES TOTAL REVENUE
1	5/8 X 3/4 - INCH	\$ 2,657,501	\$ -	\$ 2,657,501	\$ 3,248,795	\$ -	\$ 3,248,795	\$ 2,777,667	\$ -	\$ 2,777,667
2	3/4 - INCH	-	-	-	-	-	-	-	-	-
3	1 - INCH	147,376	-	147,376	180,167	-	180,167	147,554	-	147,554
4	1 1/2 - INCH	-	-	-	-	-	-	-	-	-
5	2 - INCH	-	-	-	-	-	-	-	-	-
6	3 - INCH	-	-	-	-	-	-	-	-	-
7	4 - INCH	-	-	-	-	-	-	-	-	-
8	6 - INCH	-	-	-	-	-	-	-	-	-
9	8 - INCH	-	-	-	-	-	-	-	-	-
10	10 - INCH	-	-	-	-	-	-	-	-	-
11	TOTALS	\$ 2,804,876	\$ -	\$ 2,804,876	\$ 3,428,962	\$ -	\$ 3,428,962	\$ 2,925,222	\$ -	\$ 2,925,222
12	PERCENTAGE	100.00%	0.00%	100.00%	100.00%	0.00%	100.00%	100.00%	0.00%	100.00%

PIMA UTILITY COMPANY - WASTEWATER DIVISION RESIDENTIAL RATE DESIGN
TEST YEAR ENDED DECEMBER 31, 2010
RECOMMENDED RATES

DOCKET NO. SW-02199A-11-0329 et al.
DIRECT SCHEDULE TJC RD-3

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
1	RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:			
2				
3	(RESIDENTIAL, COMMERCIAL AND MISC. CUSTOMERS)			
4	5/8 X 3/4 - INCH	\$22.73	\$27.79	\$23.76
5	3/4 - INCH	35.33	43.19	35.64
6	1 - INCH	59.33	72.53	59.40
7	1 1/2 - INCH	117.33	143.44	118.80
8	2 - INCH	187.33	229.01	190.08
9	3 - INCH	0.00	444.60	356.40
10	4 - INCH	0.00	694.69	594.00
11	6 - INCH	0.00	1,389.37	1,188.00
12	8 - INCH	0.00	0.00	2,376.00
13	10 - INCH	0.00	0.00	4,752.00
14				
15	GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:			
16				
17	RESIDENTIAL, COMMERCIAL AND EFFLUENT CUSTOMERS	0	0	0
18				
19	RECOMMENDED COMMODITY RATES BY METER SIZE			
20				
21	5/8 X 3/4 - INCH			
22	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
23	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
24	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
25				
26	3/4 - INCH			
27	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
28	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
29	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
30				
31	1 - INCH			
32	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
33	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
34	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
35				
36	1 1/2 - INCH			
37	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
38	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
39	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
40				
41	2 - INCH			
42	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
43	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
44	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
45				
46	3 - INCH			
47	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
48	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
49	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
50				
51	4 - INCH			
52	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
53	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
54	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
55				
56	6 - INCH			
57	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
58	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
59	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
60				
61	8 - INCH			
62	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
63	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
64	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
65				
66	10 - INCH			
67	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
68	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A
69	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) -	N/A	TO	N/A

PIMA UTILITY COMPANY - WASTEWATER DIVISION RESIDENTIAL RATE DESIGN
 TEST YEAR ENDED DECEMBER 31, 2010
 MONTHLY MINIMUM CHARGES

DOCKET NO. SW-02199A-11-0329 et al.
 SCHEDULE TJC RD-4

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO RECOMMENDED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	5/8 X 3/4 - INCH	\$ 22.73	\$ 27.79	\$ 5.06	22.26%	\$ 23.76	\$ 1.03	4.53%
2	3/4 - INCH	35.33	43.19	7.86	22.25%	35.64	0.31	0.88%
3	1 - INCH	59.33	72.53	13.20	22.25%	59.40	0.07	0.12%
4	1 1/2 - INCH	117.33	143.44	26.11	22.25%	118.80	1.47	1.25%
5	2 - INCH	187.33	229.01	41.68	22.25%	190.08	2.75	1.47%
6	3 - INCH	0.00	444.60	444.60	N/A	356.40	356.40	N/A
7	4 - INCH	0.00	694.69	694.69	N/A	594.00	594.00	N/A
8	6 - INCH	0.00	1,389.37	1,389.37	N/A	1,188.00	1,188.00	N/A
9	8 - INCH	0.00	0.00	0.00	N/A	2,376.00	2,376.00	N/A
10	10 - INCH	0.00	0.00	0.00	N/A	4,752.00	4,752.00	N/A
11	GALLONS INCLUDED IN MONTHLY MINIMUM CHARGE	0	0	0			0	

REFERENCES

COLUMN (A) THRU COLUMN (D): COMPANY SCHEDULE H-3, PAGE 1 OF 3
 COLUMN (E): TESTIMONY TJC
 COLUMN (F): COLUMN (E) - COLUMN (A)
 COLUMN (G): COLUMN (F) + COLUMN (A)

RATE SUMMARY

Present Rates												
A	B	C	D	E	F	G	H	I	J	K	L	M
Meter Size	Number of Bills	Total Gallons Consumed (Midrange)	Minimum Gallons	Monthly Minimum Charge	Metered Minimum Revenue B X E	Tier One Gallons Subject to Commodity Charge (Midrange)	Tier One Commodity Revenue per 1,000 Gal.	Tier Two Gallons Subject to Commodity Charge (Midrange)	Tier Two Commodity Revenue per 1,000 Gal.	Tier Three Gallons Subject to Commodity Charge (Midrange)	Tier Three Commodity Revenue per 1,000 Gal.	Total Metered Revenue F + H + J + L
5/8 X 3/4 - INCH	282	0	0	\$22.73	\$6,546	0	\$0	0	\$0	0	\$0	\$6,546
3/4 - INCH	36	0	0	35.33	1,272	0	0	0	0	0	0	1,272
1 - INCH	285	0	0	59.33	15,663	0	0	0	0	0	0	15,663
1 1/2 - INCH	108	0	0	117.33	12,672	0	0	0	0	0	0	12,672
2 - INCH	618	0	0	187.33	116,894	0	0	0	0	0	0	116,894
3 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
4 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
6 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
8 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
10 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
	1,329	0	0	0.00	\$153,047	0	\$0	0	\$0	0	\$0	\$153,047

Company Proposed Rates												
A	B	C	D	E	F	G	H	I	J	K	L	M
Meter Size	Number of Bills	Total Gallons Consumed (Midrange)	Minimum Gallons	Monthly Minimum Charge	Metered Minimum Revenue B X E	Tier One Gallons Subject to Commodity Charge (Midrange)	Tier One Commodity Revenue per 1,000 Gal.	Tier Two Gallons Subject to Commodity Charge (Midrange)	Tier Two Commodity Revenue per 1,000 Gal.	Tier Three Gallons Subject to Commodity Charge (Midrange)	Tier Three Commodity Revenue per 1,000 Gal.	Total Metered Revenue F + H + J + L
5/8 X 3/4 - INCH	282	0	0	\$27.79	\$8,004	0	\$0	0	\$0	0	\$0	\$8,004
3/4 - INCH	36	0	0	43.19	1,555	0	0	0	0	0	0	1,555
1 - INCH	285	0	0	72.53	19,148	0	0	0	0	0	0	19,148
1 1/2 - INCH	108	0	0	143.44	15,492	0	0	0	0	0	0	15,492
2 - INCH	618	0	0	229.01	142,902	0	0	0	0	0	0	142,902
3 - INCH	0	0	0	444.50	0	0	0	0	0	0	0	0
4 - INCH	0	0	0	694.69	0	0	0	0	0	0	0	0
6 - INCH	0	0	0	1,389.37	0	0	0	0	0	0	0	0
8 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
10 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
	1,329	0	0	0.00	\$187,100	0	\$0	0	\$0	0	\$0	\$187,100

RUCO Recommended Rates												
A	B	C	D	E	F	G	H	I	J	K	L	M
Meter Size	Number of Bills	Total Gallons Consumed (Midrange)	Minimum Gallons	Monthly Minimum Charge	Metered Minimum Revenue B X E	Tier One Gallons Subject to Commodity Charge (Midrange)	Tier One Commodity Revenue per 1,000 Gal.	Tier Two Gallons Subject to Commodity Charge (Midrange)	Tier Two Commodity Revenue per 1,000 Gal.	Tier Three Gallons Subject to Commodity Charge (Midrange)	Tier Three Commodity Revenue per 1,000 Gal.	Total Metered Revenue F + H + J + L
5/8 X 3/4 - INCH	282	0	0	\$23.76	\$6,843	0	\$0	0	\$0	0	\$0	\$6,843
3/4 - INCH	36	0	0	35.64	1,283	0	0	0	0	0	0	1,283
1 - INCH	285	0	0	59.40	15,662	0	0	0	0	0	0	15,662
1 1/2 - INCH	109	0	0	118.80	12,830	0	0	0	0	0	0	12,830
2 - INCH	618	0	0	190.08	118,610	0	0	0	0	0	0	118,610
3 - INCH	0	0	0	356.40	0	0	0	0	0	0	0	0
4 - INCH	0	0	0	594.00	0	0	0	0	0	0	0	0
6 - INCH	0	0	0	1,188.00	0	0	0	0	0	0	0	0
8 - INCH	0	0	0	2,376.00	0	0	0	0	0	0	0	0
10 - INCH	0	0	0	4,752.00	0	0	0	0	0	0	0	0
	1,329	0	0	0.00	\$155,248	0	\$0	0	\$0	0	\$0	\$155,248

PIMA UTILITY COMPANY - WASTEWATER DIVISION COMMERCIAL RATE DESIGN
TEST YEAR ENDED DECEMBER 31, 2010
REVENUE COMPARISON

DOCKET NO. SW-02199A-11-0329 et al.
DIRECT SCHEDULE TJC RD-2

LINE NO.	METER SIZE	PERESNT RATES MONTHLY MINIMUM	PERESNT RATES COMMODITY CHARGE	PERESNT RATES TOTAL REVENUE	COMPANY PROPOSED RATES MONTHLY MINIMUM	COMPANY PROPOSED RATES COMMODITY CHARGE	COMPANY PROPOSED RATES TOTAL REVENUE	RUCO RECOMMENDED RATES MONTHLY MINIMUM	RUCO RECOMMENDED RATES COMMODITY CHARGE	RUCO RECOMMENDED RATES TOTAL REVENUE
1	5/8 X 3/4 - INCH	\$ 6,546	\$ -	\$ 6,546	\$ 8,004	\$ -	\$ 8,004	\$ 6,843	\$ -	\$ 6,843
2	3/4 - INCH	1,272	-	1,272	1,555	-	1,555	1,283	-	1,283
3	1 - INCH	15,663	-	15,663	19,148	-	19,148	15,682	-	15,682
4	1 1/2 - INCH	12,672	-	12,672	15,492	-	15,492	12,830	-	12,830
5	2 - INCH	116,894	-	116,894	142,902	-	142,902	118,610	-	118,610
6	3 - INCH	-	-	-	-	-	-	-	-	-
7	4 - INCH	-	-	-	-	-	-	-	-	-
8	6 - INCH	-	-	-	-	-	-	-	-	-
9	8 - INCH	-	-	-	-	-	-	-	-	-
10	10 - INCH	-	-	-	-	-	-	-	-	-
11	TOTALS	\$ 153,047	\$ -	\$ 153,047	\$ 187,100	\$ -	\$ 187,100	\$ 155,248	\$ -	\$ 155,248
12	PERCENTAGE	100.00%	0.00%	100.00%	100.00%	0.00%	100.00%	100.00%	0.00%	100.00%

PIMA UTILITY COMPANY - WASTEWATER DIVISION COMMERCIAL RATE DESIGN
TEST YEAR ENDED DECEMBER 31, 2010
RECOMMENDED RATES

DOCKET NO. SW-02199A-11-0329 et al.
DIRECT SCHEDULE TJC RD-3

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
1	RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:			
2				
3	(RESIDENTIAL AND COMMERCIAL CUSTOMERS)			
4	5/8 X 3/4 - INCH	\$22.73	\$27.79	\$23.76
5	3/4 - INCH	35.33	43.19	35.64
6	1 - INCH	59.33	72.53	59.40
7	1 1/2 - INCH	117.33	143.44	118.80
8	2 - INCH	187.33	229.01	190.08
9	3 - INCH	0.00	444.50	356.40
10	4 - INCH	0.00	694.69	594.00
11	6 - INCH	0.00	1,389.37	1,188.00
12	8 - INCH	0.00	0.00	2,376.00
13	10 - INCH	0.00	0.00	4,752.00
14				
15	GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:			
16				
17	RESIDENTIAL AND COMMERCIAL CUSTOMERS	0	0	0
18				
19	RECOMMENDED COMMODITY RATES BY METER SIZE			
20				
21	5/8 X 3/4 - INCH			
22	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
23	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
24	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
25				
26	3/4 - INCH			
27	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
28	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
29	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
30				
31	1 - INCH			
32	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
33	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
34	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
35				
36	1 1/2 - INCH			
37	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
38	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
39	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
40				
41	2 - INCH			
42	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
43	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
44	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
45				
46	3 - INCH			
47	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
48	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
49	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
50				
51	4 - INCH			
52	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
53	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
54	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
55				
56	6 - INCH			
57	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
58	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
59	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
60				
61	8 - INCH			
62	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
63	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
64	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
65				
66	10 - INCH			
67	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
68	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -
69	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO N/A GALLONS:	\$ -	\$ -	\$ -

PIMA UTILITY COMPANY - WASTEWATER DIVISION COMMERCIAL RATE DESIGN
TEST YEAR ENDED DECEMBER 31, 2010
MONTHLY MINIMUM CHARGES

DOCKET NO. SW-02199A-11-0329 et al.
SCHEDULE TJC RD-4

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO RECOMMENDED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	5/8 X 3/4 - INCH	\$ 22.73	\$ 27.79	\$ 5.06	22.26%	\$ 23.76	\$ 1.03	4.53%
2	3/4 - INCH	35.33	43.19	7.86	22.25%	35.64	0.31	0.88%
3	1 - INCH	59.33	72.53	13.20	22.25%	59.40	0.07	0.12%
4	1 1/2 - INCH	117.33	143.44	26.11	22.25%	118.80	1.47	1.25%
5	2 - INCH	187.33	229.01	41.68	22.25%	190.08	2.75	1.47%
6	3 - INCH	0.00	444.50	444.50	N/A	356.40	356.40	N/A
7	4 - INCH	0.00	694.69	694.69	N/A	594.00	594.00	N/A
8	6 - INCH	0.00	1,389.37	1,389.37	N/A	1,188.00	1,188.00	N/A
9	8 - INCH	0.00	0.00	0.00	N/A	2,376.00	2,376.00	N/A
10	10 - INCH	0.00	0.00	0.00	N/A	4,752.00	4,752.00	N/A
11	GALLONS INCLUDED IN MONTHLY MINIMUM CHARGE	0	0	0			0	

REFERENCES

COLUMN (A) THRU COLUMN (D): COMPANY SCHEDULE H-3, PAGE 1 OF 3
COLUMN (E): TESTIMONY TJC
COLUMN (F): COLUMN (E) - COLUMN (A)
COLUMN (G): COLUMN (F) + COLUMN (A)

RATE SUMMARY

Present Rates												
A	B	C	D	E	F	G	H	I	J	K	L	M
Meter Size	Number of Bills	Total Gallons Consumed (Midrange)	Minimum Gallons	Monthly Minimum Charge	Metered Minimum Revenue B X E	Tier One Gallons Subject to Commodity Charge (Midrange)	Tier One Commodity Revenue per 1,000 Gal.	Tier Two Gallons Subject to Commodity Charge (Midrange)	Tier Two Commodity Revenue per 1,000 Gal.	Tier Three Gallons Subject to Commodity Charge (Midrange)	Tier Three Commodity Revenue per 1,000 Gal.	Total Metered Revenue F + H + J + L
EFFLUENT SALES 1	18	803,868,241	1,800,000	\$180.00	\$3,240	71,278,931	\$41,342	0	\$0	0	\$0	\$44,582
EFFLUENT SALES 2	15	1,424,316,972	1,500,000	180.00	2,700	127,943,361	74,230	0	0	0	0	76,930
1 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
1 1/2 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
2 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
3 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
4 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
6 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
8 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
10 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
	33	2,228,185,214	3,300,000	0.00	\$5,940	199,262,292	\$115,572	0	\$0	0	\$0	\$121,512

Company Proposed Rates												
A	B	C	D	E	F	G	H	I	J	K	L	M
Meter Size	Number of Bills	Total Gallons Consumed (Midrange)	Minimum Gallons	Monthly Minimum Charge	Metered Minimum Revenue B X E	Tier One Gallons Subject to Commodity Charge (Midrange)	Tier One Commodity Revenue per 1,000 Gal.	Tier Two Gallons Subject to Commodity Charge (Midrange)	Tier Two Commodity Revenue per 1,000 Gal.	Tier Three Gallons Subject to Commodity Charge (Midrange)	Tier Three Commodity Revenue per 1,000 Gal.	Total Metered Revenue F + H + J + L
EFFLUENT SALES 1	18	803,868,241	0	\$232.56	\$4,186	73,078,931	\$51,155	0	\$0	0	\$0	\$55,341
EFFLUENT SALES 2	15	1,424,316,972	0	232.56	3,488	129,483,361	90,638	0	0	0	0	94,127
1 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
1 1/2 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
2 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
3 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
4 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
6 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
8 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
10 - INCH	0	0	0	0.00	0	0	0	0	0	0	0	0
	33	2,228,185,214	0	0.00	\$7,674	202,562,292	\$141,794	0	\$0	0	\$0	\$149,468

RUCO Recommended Rates												
A	B	C	D	E	F	G	H	I	J	K	L	M
Meter Size	Number of Bills	Total Gallons Consumed (Midrange)	Minimum Gallons	Monthly Minimum Charge	Metered Minimum Revenue B X E	Tier One Gallons Subject to Commodity Charge (Midrange)	Tier One Commodity Revenue per 1,000 Gal.	Tier Two Gallons Subject to Commodity Charge (Midrange)	Tier Two Commodity Revenue per 1,000 Gal.	Tier Three Gallons Subject to Commodity Charge (Midrange)	Tier Three Commodity Revenue per 1,000 Gal.	Total Metered Revenue F + H + J + L
EFFLUENT SALES 1	18	803,868,241	0	\$190.00	\$3,420	73,078,931	\$46,771	0	\$0	0	\$0	\$50,191
EFFLUENT SALES 2	15	1,424,316,972	0	190.00	2,850	129,483,361	82,869	0	0	0	0	85,719
1 - INCH	0	0	0	475.00	0	0	0	0	0	0	0	0
1 1/2 - INCH	0	0	0	950.00	0	0	0	0	0	0	0	0
2 - INCH	0	0	0	1,520.00	0	0	0	0	0	0	0	0
3 - INCH	0	0	0	2,850.00	0	0	0	0	0	0	0	0
4 - INCH	0	0	0	4,750.00	0	0	0	0	0	0	0	0
6 - INCH	0	0	0	9,500.00	0	0	0	0	0	0	0	0
8 - INCH	0	0	0	19,000.00	0	0	0	0	0	0	0	0
10 - INCH	0	0	0	38,000.00	0	0	0	0	0	0	0	0
	33	2,228,185,214	0	0.00	\$6,270	202,562,292	\$129,640	0	\$0	0	\$0	\$135,910

PIMA UTILITY COMPANY - WASTEWATER DIVISION EFFLUENT SALES RATE DESIGN
 TEST YEAR ENDED DECEMBER 31, 2010
 REVENUE COMPARISON

DOCKET NO. SW-02199A-11-0329 et al.
 DIRECT SCHEDULE TJC RD-2

LINE NO.	METER SIZE	PERSENT RATES MONTHLY MINIMUM	PERSENT RATES COMMODITY CHARGE	PERSENT RATES TOTAL REVENUE	COMPANY PROPOSED RATES MONTHLY MINIMUM	COMPANY PROPOSED RATES COMMODITY CHARGE	COMPANY PROPOSED RATES TOTAL REVENUE	RUCO RECOMMENDED RATES MONTHLY MINIMUM	RUCO RECOMMENDED RATES COMMODITY CHARGE	RUCO RECOMMENDED RATES TOTAL REVENUE
1	EFFLUENT SALES	\$ 3,240	\$ 41,342	\$ 44,582	\$ 4,186	\$ 51,155	\$ 55,341	\$ 3,420	\$ 46,771	\$ 50,191
2	EFFLUENT SALES	2,700	74,230	76,930	3,488	90,638	94,127	2,850	82,869	85,719
3	1 - INCH	-	-	-	-	-	-	-	-	-
4	1 1/2 - INCH	-	-	-	-	-	-	-	-	-
5	2 - INCH	-	-	-	-	-	-	-	-	-
6	3 - INCH	-	-	-	-	-	-	-	-	-
7	4 - INCH	-	-	-	-	-	-	-	-	-
8	6 - INCH	-	-	-	-	-	-	-	-	-
9	8 - INCH	-	-	-	-	-	-	-	-	-
10	10 - INCH	-	-	-	-	-	-	-	-	-
11	TOTALS	\$ 5,940	\$ 115,572	\$ 121,512	\$ 7,674	\$ 141,794	\$ 149,468	\$ 6,270	\$ 129,640	\$ 135,910
12	PERCENTAGE	4.89%	95.11%	100.00%	5.13%	94.87%	100.00%	4.61%	95.39%	100.00%

PIMA UTILITY COMPANY - WASTEWATER DIVISION EFFLUENT SALES RATE DESIGN
TEST YEAR ENDED DECEMBER 31, 2010
RECOMMENDED RATES

DOCKET NO. SW-02199A-11-0329 et al.
DIRECT SCHEDULE TJC RD-3

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
1	RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:			
2				
3	(EFFLUENT SALES CUSTOMERS)			
4	EFFLUENT SALES 1	\$180.00	\$232.56	\$190.00
5	EFFLUENT SALES 2	180.00	232.56	190.00
6	1 - INCH	0.00	0.00	475.00
7	1 1/2 - INCH	0.00	0.00	950.00
8	2 - INCH	0.00	0.00	1,520.00
9	3 - INCH	0.00	0.00	2,850.00
10	4 - INCH	0.00	0.00	4,750.00
11	6 - INCH	0.00	0.00	9,500.00
12	8 - INCH	0.00	0.00	19,000.00
13	10 - INCH	0.00	0.00	38,000.00
14				
15	GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:			
16				
17	RESIDENTIAL, COMMERCIAL AND MISC. CUSTOMERS	100,000	0	0
18				
19	RECOMMENDED COMMODITY RATES BY METER SIZE			
20				
21	EFFLUENT SALES 1			
22	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 999,999,999,999,000 GALLONS:	\$ 0.58	\$ 0.70	\$ 0.64
23	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
24	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
25				
26	EFFLUENT SALES 2			
27	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 999,999,999,999,000 GALLONS:	\$ 0.58	\$ 0.70	\$ 0.64
28	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
29	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
30				
31	1 - INCH			
32	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ 0.64
33	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
34	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
35				
36	1 1/2 - INCH			
37	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ 0.64
38	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
39	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
40				
41	2 - INCH			
42	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ 0.64
43	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
44	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
45				
46	3 - INCH			
47	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ 0.64
48	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
49	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
50				
51	4 - INCH			
52	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ 0.64
53	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
54	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
55				
56	6 - INCH			
57	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ 0.64
58	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
59	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
60				
61	8 - INCH			
62	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ 0.64
63	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
64	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
65				
66	10 - INCH			
67	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ 0.64
68	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
69	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -

PIMA UTILITY COMPANY - WASTEWATER DIVISION EFFLUENT SALES RATE DESIGN
TEST YEAR ENDED DECEMBER 31, 2010
MONTHLY MINIMUM CHARGES

DOCKET NO. SW-02199A-11-0329 et al.
DIRECT SCHEDULE TJC RD-4

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO RECOMMENDED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	EFFLUENT SALES 1	\$ 180.00	\$ 232.56	\$ 52.56	29.20%	\$ 190.00	\$ 10.00	5.56%
2	EFFLUENT SALES 2	180.00	232.56	52.56	29.20%	190.00	10.00	5.56%
3	1 - INCH	0.00	0.00	0.00	N/A	475.00	475.00	N/A
4	1 1/2 - INCH	0.00	0.00	0.00	N/A	950.00	950.00	N/A
5	2 - INCH	0.00	0.00	0.00	N/A	1,520.00	1,520.00	N/A
6	3 - INCH	0.00	0.00	0.00	N/A	2,850.00	2,850.00	N/A
7	4 - INCH	0.00	0.00	0.00	N/A	4,750.00	4,750.00	N/A
8	6 - INCH	0.00	0.00	0.00	N/A	9,500.00	9,500.00	N/A
9	8 - INCH	0.00	0.00	0.00	N/A	19,000.00	19,000.00	N/A
10	10 - INCH	0.00	0.00	0.00	N/A	38,000.00	38,000.00	N/A
11	GALLONS INCLUDED IN MONTHLY MINIMUM CHARGE	100,000	0				0	

REFERENCES

COLUMN (A) THRU COLUMN (D): COMPANY SCHEDULE H-3, PAGE 1 OF 3
COLUMN (E): TESTIMONY XXX
COLUMN (F): COLUMN (E) - COLUMN (A)
COLUMN (G): COLUMN (F) + COLUMN (A)

PIMA UTILITY COMPANY - WASTEWATER DIVISION EFFLUENT WATER SALES RECOVERED RATE DESIGN
 TEST YEAR ENDED DECEMBER 31, 2010
 SUMMARY OF PRESENT, COMPANY PROPOSED & RUCO RECOMMENDED RATES

DOCKET NO. SW-02199A-11-0329 et al.
 DIRECT SCHEDULE TJC RD-1

RATE SUMMARY

Present Rates												
A	B	C	D	E	F	G	H	I	J	K	L	M
Meter Size	Number of Bills	Total Gallons Consumed (Midrange)	Minimum Gallons	Monthly Minimum Charge	Metered Minimum Revenue B X E	Tier One Gallons Subject to Commodity Charge (Midrange)	Tier One Commodity Revenue per 1,000 Gal.	Tier Two Gallons Subject to Commodity Charge (Midrange)	Tier Two Commodity Revenue per 1,000 Gal.	Tier Three Gallons Subject to Commodity Charge (Midrange)	Tier Three Commodity Revenue per 1,000 Gal.	Total Metered Revenue F + H + J + L
RECOVERED EFFLU	12	236,986,200	0	\$180.00	\$0	21,544,200	\$12,496	0	\$0	0	\$0	\$12,496
RECOVERED EFFLU	0	0	0	0.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	0.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	0.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	0.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	0.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	0.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	0.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	12	236,986,200	0	0.00	\$0	21,544,200	\$12,496	0	\$0	0	\$0	\$12,496

Company Proposed Rates												
A	B	C	D	E	F	G	H	I	J	K	L	M
Meter Size	Number of Bills	Total Gallons Consumed (Midrange)	Minimum Gallons	Monthly Minimum Charge	Metered Minimum Revenue B X E	Tier One Gallons Subject to Commodity Charge (Midrange)	Tier One Commodity Revenue per 1,000 Gal.	Tier Two Gallons Subject to Commodity Charge (Midrange)	Tier Two Commodity Revenue per 1,000 Gal.	Tier Three Gallons Subject to Commodity Charge (Midrange)	Tier Three Commodity Revenue per 1,000 Gal.	Total Metered Revenue F + H + J + L
RECOVERED EFFLU	12	236,986,200	0	\$332.56	\$0	21,544,200	\$15,081	0	\$0	0	\$0	\$15,081
RECOVERED EFFLU	0	0	0	0.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	0.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	0.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	0.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	0.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	0.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	0.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	12	236,986,200	0	0.00	\$0	21,544,200	\$15,081	0	\$0	0	\$0	\$15,081

RUCO Recommended Rates												
A	B	C	D	E	F	G	H	I	J	K	L	M
Meter Size	Number of Bills	Total Gallons Consumed (Midrange)	Minimum Gallons	Monthly Minimum Charge	Metered Minimum Revenue B X E	Tier One Gallons Subject to Commodity Charge (Midrange)	Tier One Commodity Revenue per 1,000 Gal.	Tier Two Gallons Subject to Commodity Charge (Midrange)	Tier Two Commodity Revenue per 1,000 Gal.	Tier Three Gallons Subject to Commodity Charge (Midrange)	Tier Three Commodity Revenue per 1,000 Gal.	Total Metered Revenue F + H + J + L
RECOVERED EFFLU	12	236,986,200	0	\$190.00	\$0	21,544,200	\$13,788	0	\$0	0	\$0	\$13,788
RECOVERED EFFLU	0	0	0	285.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	475.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	950.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	1,520.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	2,850.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	4,750.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	9,500.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	0	0	0	19,000.00	0	0	0	0	0	0	0	0
RECOVERED EFFLU	12	236,986,200	0	38,000.00	\$0	21,544,200	\$13,788	0	\$0	0	\$0	\$13,788

PIMA UTILITY COMPANY - WASTEWATER DIVISION EFFLUENT WATER SALES RECOVERED RATE DESIGN
 TEST YEAR ENDED DECEMBER 31, 2010
 REVENUE COMPARISON

DOCKET NO. SW-02199A-11-0329 et al.
 DIRECT SCHEDULE TJC RD-2

LINE NO.	METER SIZE	PERSENT RATES MONTHLY MINIMUM	PERSENT RATES COMMODITY CHARGE	PERSENT RATES TOTAL REVENUE	COMPANY PROPOSED RATES MONTHLY MINIMUM	COMPANY PROPOSED RATES COMMODITY CHARGE	COMPANY PROPOSED RATES TOTAL REVENUE	RUCO RECOMMENDED RATES MONTHLY MINIMUM	RUCO RECOMMENDED RATES COMMODITY CHARGE	RUCO RECOMMENDED RATES TOTAL REVENUE
1	RECOVERED EFFL	\$ -	\$ 12,496	\$ 12,496	\$ -	\$ 15,081	\$ 15,081	\$ -	\$ 13,788	\$ 13,788
2	RECOVERED EFFL	-	-	-	-	-	-	-	-	-
3	RECOVERED EFFL	-	-	-	-	-	-	-	-	-
4	RECOVERED EFFL	-	-	-	-	-	-	-	-	-
5	RECOVERED EFFL	-	-	-	-	-	-	-	-	-
6	RECOVERED EFFL	-	-	-	-	-	-	-	-	-
7	RECOVERED EFFL	-	-	-	-	-	-	-	-	-
8	RECOVERED EFFL	-	-	-	-	-	-	-	-	-
9	RECOVERED EFFL	-	-	-	-	-	-	-	-	-
10	RECOVERED EFFL	-	-	-	-	-	-	-	-	-
11	TOTALS	\$ -	\$ 12,496	\$ 12,496	\$ -	\$ 15,081	\$ 15,081	\$ -	\$ 13,788	\$ 13,788
12	PERCENTAGE	0.00%	100.00%	100.00%	0.00%	100.00%	100.00%	0.00%	100.00%	100.00%

PIMA UTILITY COMPANY - WASTEWATER DIVISION EFFLUENT WATER SALES RECOVERED RATE DESIGN
TEST YEAR ENDED DECEMBER 31, 2010
RECOMMENDED RATES

DOCKET NO. SW-02199A-11-0329 et al.
DIRECT SCHEDULE TJC RD-3

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
1	RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:			
2				
3	<u>(RECOVERED EFFLUENT CUSTOMERS)</u>			
4	RECOVERED EFFLUENT	\$180.00	\$232.56	\$190.00
5	RECOVERED EFFLUENT	0.00	0.00	285.00
6	RECOVERED EFFLUENT	0.00	0.00	475.00
7	RECOVERED EFFLUENT	0.00	0.00	950.00
8	RECOVERED EFFLUENT	0.00	0.00	1,520.00
9	RECOVERED EFFLUENT	0.00	0.00	2,850.00
10	RECOVERED EFFLUENT	0.00	0.00	4,750.00
11	RECOVERED EFFLUENT	0.00	0.00	9,500.00
12	RECOVERED EFFLUENT	0.00	0.00	19,000.00
13	RECOVERED EFFLUENT	0.00	0.00	38,000.00
14				
15	GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:			
16				
17	RESIDENTIAL, COMMERCIAL AND MISC. CUSTOMERS	0	0	0
18				
19	<u>RECOMMENDED COMMODITY RATES BY METER SIZE</u>			
20				
21	<u>RECOVERED EFFLUENT</u>			
22	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 999,999,999,999,000 GALLONS:	\$ 0.58	\$ 0.70	\$ 0.64
23	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
24	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
25				
26	<u>RECOVERED EFFLUENT</u>			
27	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ -
28	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
29	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
30				
31	<u>RECOVERED EFFLUENT</u>			
32	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ -
33	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
34	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
35				
36	<u>RECOVERED EFFLUENT</u>			
37	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ -
38	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
39	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
40				
41	<u>RECOVERED EFFLUENT</u>			
42	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ -
43	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
44	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
45				
46	<u>RECOVERED EFFLUENT</u>			
47	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ -
48	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
49	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
50				
51	<u>RECOVERED EFFLUENT</u>			
52	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ -
53	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
54	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
55				
56	<u>RECOVERED EFFLUENT</u>			
57	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ -
58	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
59	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
60				
61	<u>RECOVERED EFFLUENT</u>			
62	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ -
63	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
64	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
65				
66	<u>RECOVERED EFFLUENT</u>			
67	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 999,999,999,999,000 GALLONS:	\$ -	\$ -	\$ -
68	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -
69	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - N/A TO 0 GALLONS:	\$ -	\$ -	\$ -

PIMA UTILITY COMPANY - WASTEWATER DIVISION EFFLUENT WATER SALES RECOVERED RATE DESIGN
 TEST YEAR ENDED DECEMBER 31, 2010
 MONTHLY MINIMUM CHARGES

DOCKET NO. SW-02199A-11-0329 et al.
 DIRECT SCHEDULE TJC RD-4

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO RECOMMENDED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	RECOVERED EFFLUENT	\$ 180.00	\$ 232.56	\$ 52.56	29.20%	\$ 190.00	\$ 10.00	5.56%
2	RECOVERED EFFLUENT	0.00	0.00	0.00	N/A	285.00	285.00	N/A
3	RECOVERED EFFLUENT	0.00	0.00	0.00	N/A	475.00	475.00	N/A
4	RECOVERED EFFLUENT	0.00	0.00	0.00	N/A	950.00	950.00	N/A
5	RECOVERED EFFLUENT	0.00	0.00	0.00	N/A	1,520.00	1,520.00	N/A
6	RECOVERED EFFLUENT	0.00	0.00	0.00	N/A	2,850.00	2,850.00	N/A
7	RECOVERED EFFLUENT	0.00	0.00	0.00	N/A	4,750.00	4,750.00	N/A
8	RECOVERED EFFLUENT	0.00	0.00	0.00	N/A	9,500.00	9,500.00	N/A
9	RECOVERED EFFLUENT	0.00	0.00	0.00	N/A	19,000.00	19,000.00	N/A
10	RECOVERED EFFLUENT	0.00	0.00	0.00	N/A	38,000.00	38,000.00	N/A
11	GALLONS INCLUDED IN MONTHLY MINIMUM CHARGE	0	0	0			0	

REFERENCES

COLUMN (A) THRU COLUMN (D): COMPANY SCHEDULE H-3, PAGE 1 OF 3
 COLUMN (E): TESTIMONY XXX
 COLUMN (F): COLUMN (E) - COLUMN (A)
 COLUMN (G): COLUMN (F) + COLUMN (A)

PIMA UTILITY COMPANY

**DOCKET NO. W-02199A-11-0329
DOCKET NO. SW-02199A-11-0330**

DIRECT TESTIMONY

OF

ROBERT B. MEASE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 27, 2012

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EXECUTIVE SUMMARY

Pima Utility Company ("Pima" or "Company") is a Class B public service water and wastewater corporation organized as an S corporation under Subtitle A, Chapter 1, Subchapter S of the Internal Revenue Code. The Company serves approximately 10,188 water customers in portions of Maricopa County, Arizona.

Pima filed general rate applications for both the Company's Water and Wastewater Divisions with the Arizona Corporation Commission ("ACC" or "Commission") on August 29, 2011 using a test year ending on December 31, 2010.

On September 19, 2011, Pima filed a Motion to Consolidate Docket Numbers W-02199A-11-0329 and SW-02199A-11-0330. In its Motion, Pima stated that the Company's water and wastewater customer bases are largely the same and Pima is operated and managed as one utility. The Commission subsequently found the Applications sufficient on September 30, 2011 and consolidated the two dockets as W-02199A-11-0329 et al. for purposes of hearing.

For Pima's Water Division, the Company is requesting a gross revenue increase of \$1,023,565 or a 51.76 percent increase over Test Year adjusted revenue of \$1,977,627. RUCO recommends a \$566,048 or 28.62 percent increase over Water Division Test Year adjusted revenue of \$1,977,627.

The Company is seeking a 9.47 percent rate of return on a \$9,097,529 Water Division fair value rate base for an operating income of \$861,536. RUCO recommends a 9.01 percent rate of return on a \$9,073,286 Water Division fair value rate base for an operating income of \$817,503.

Based on RUCO's analysis of Pima Water Division's rate Application, RUCO is recommending a three-tiered rate design that will result in an increase of \$2.11, or 19.79 percent, over the present monthly rate of \$10.66 for a residential customer with a 5/8" x 3/4" meter using an average of 6,395 gallons per month.

RUCO analyst Timothy J. Coley will provide direct testimony on Pima's Wastewater application.

RUCO's Chief of Accounting and Rates William A. Rigsby will provide direct testimony on RUCO's recommended cost of capital and the Company's request to include income taxes in rates.

INTRODUCTION

Q. Please state your name, position, employer and address.

A. My Name is Robert B. Mease. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please state your educational background and qualifications in the utility regulation field.

A. Appendix 1, which is attached to this testimony, describes my educational background, work experience and regulatory matters in which I have participated. In summary, I joined RUCO in October of 2011. I graduated from Morris Harvey College in Charleston, WV and attended Kanawha Valley School of Graduate Studies. I am a Certified Public Accountant and have been licensed to practice in West Virginia and Montana. My years of work experience include serving as Vice President and Controller of a public utility and energy company in Great Falls, Montana and have participated in several rate case filings on behalf of the utility.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's recommendations regarding Pima Utility Company's ("Pima" or "Company") Water Division Application for a determination of the current fair value of its utility plant and property and for a permanent increase in its rates and charges based

1 thereon for water utility service. The test year utilized by the Company in
2 connection with the preparation of this Application is the 12-month period
3 that ended December 31, 2010. Mr. Tim Coley will be providing testimony
4 for work completed on his review of the Wastewater Division.

5
6 **BACKGROUND**

7 **Q. Please describe your work effort on this project?**

8 A. I reviewed financial data provided by the Company and performed
9 analytical procedures necessary to understand the Company's filing as it
10 relates to operating income, rate base, and the overall revenue
11 requirement for Pima's Water Division. My recommendations are based
12 on these analyses. Procedures performed include the in-house
13 formulation and analysis of information provided by the Company to
14 RUCO in data requests, the review and analysis of the Company's
15 responses to four Commission Staff data requests, and a review of prior
16 ACC dockets related to the Company's Water Division. RUCO's
17 participation in this proceeding is the cumulative effort of RUCO
18 witnesses; myself Robert B. Mease, and William A. Rigsby. I was
19 responsible for the rate base, the operating income and expense
20 adjustments that determine RUCO's revenue requirement
21 recommendations as well as rate design. RUCO's Chief of Accounting
22 and Rates, Mr. Rigsby, will present separate testimony on policy related to

1 the income tax issue in this case, and RUCO's cost of capital
2 recommendation.

3
4 **Q. Can you please identify the exhibits you are sponsoring?**

5 A. I am sponsoring schedules numbered RBM-1 through RBM-19 for the
6 determination of the Water Division's revenue requirement and schedules
7 RBM RD-1 through RBM RD-7 for the establishment of the recommended
8 rate design for residential and commercial ratepayers. I am also
9 sponsoring schedules RBM RD-1 through RBM RD-5 for the irrigation
10 ratepayers..

11
12 **SUMMARY OF DIRECT TESTIMONY**

13 **Rate Base Adjustments Summary**

14
15 **Q. Can you please provide a summary of the adjustments to the rate**
16 **base in your testimony?**

17 A. Yes, in summary, adjustments to the rate base that RUCO is
18 recommending include the following:

19
20 Rate Base Adjustment #1 – Convert Advances in Aid of Construction
21 (AIAC) to Contribution in Aid of Construction (CIAC).

22 RUCO is proposing a reclassification from Advances In Aid of
23 Construction (AIAC) to Contributions in Aid Construction (CIAC) due to the
24 bankruptcy of a large developer. This adjustment reduces AIAC by

1 \$374,236 and increases CIAC by \$423,629 to which the Company has
2 agreed. The adjustment between these accounts also affects depreciation
3 expense discussed in Operating Income Adjustment #1.

4 Rate Base Adjustment #2 – Capitalize an Expensed Plant Item

5 The Company has charged to Repairs and Maintenance Expense and
6 Contractual Services – Engineering Expense costs that are more
7 appropriately Utility Plant in Service (UPIS) and should be included in rate
8 base. The adjustment to UPIS related to these costs also has a minor
9 effect on the Company's Accumulated Depreciation Account. The
10 Company has agreed to this adjustment in its response to Staff data
11 request 1-29 and 1-31.

12
13 **Operating Income Adjustments Summary**

14 **Q. Can you please summarize RUCO's operating income adjustments in**
15 **your testimony?**

16 A. In summary the adjustments to operating income RUCO is recommending
17 includes the following:

18 Operating Income Adjustment #1– Depreciation Expense

19 The adjustment recalculates Depreciation Expense based on RUCO's
20 recommended plant level. The adjustment relates to the reclassification of
21 Repairs and Maintenance Expense and Contractual Services Expense –
22 Engineering from expense to UPIS. In addition RUCO is recommending
23 an increase in Amortization Expense related to the reclassification

1 between AIAC and CIAC. The \$19,120 total of these two adjustments is
2 also reflected in the Company's Accumulated Depreciation and
3 Amortization Account.

4 Operating Income Adjustment #2 – Property Taxes

5 The adjustment reduces property tax expense by \$6,851 and is primarily
6 related to calculating property tax expense based on a modified Arizona
7 Department of Revenue ("ADOR") formula that has been adopted by the
8 Commission in a number of prior rate cases.

9 Operating Income Adjustment #3 – Remove Repairs and Maintenance
10 Expense That Should Have Been Capitalized

11 The adjustment reduces Repairs and Maintenance Expenses by \$21,629
12 related to costs more appropriately charged to UPIS.

13 Operating Income Adjustment #4 – Remove Contractual Services
14 Expense – Engineering That Should Have Been Capitalized

15 The adjustment reduces Contractual Services Expense – Engineering by
16 \$3,902 also related to costs more appropriately charged to UPIS.

17 Operating Adjustment #5 – Rate Case Expense

18 This adjustment reflects RUCO's \$150,000 recommended level of rate
19 case expense, to be normalized over four years. The adjustment
20 decreases the Company-proposed level of annual rate case expense by
21 \$12,500 for an annual rate case expense of \$37,500.

Operating Income Adjustment #6 – Miscellaneous Expense - Banking Fees

Miscellaneous Expense related banking fees is reduced by \$6,354. Banking fees are to be charged fifty percent to the water division and fifty percent to the wastewater division. However, all fees were recorded as an expense on the books of the water division.

Operating Income Adjustment #7 – Salaries and Wages Officers

Salaries and Wages Officers are excessive compared to CEO executives within the industry. Pima has allocated in excess of \$90,000 to the Chairman of the Board based on 56.25 reported hours worked for the Water Division.

Operating Income Adjustment #8 – Intentionally Left Blank

Operating Income Adjustment #9 – Intentionally Left Blank

Operating Income Adjustment #10 – Intentionally Left Blank

Operating Income Adjustment #11 – Income Tax Expense

This adjustment removes the Company's pro forma adjustment in the amount of \$27,157. The Company had taken a credit for income taxes due to a net operating loss in its test year adjustments. Mr. Rigsby, will discuss income tax allowances in his direct testimony.

Revenue Requirements Summary

Q. Can you please summarize the results of RUCO's analysis of the Company's filing and state RUCO's recommended revenue requirements for the Company's water division.

A. RUCO is recommending an increase in revenues of \$566,092, or 28.62 percent compared to the Company's request of \$1,023,565, or a 51.76 percent increase.

Rate Design Summary

Q. Can you please explain the Water Divisions rate classifications?

A. The Water Division's rates are classified into residential, commercial and irrigation. The Company has requested an increase for residential customers of 41.24 percent, an increase of 55.19 percent increase for commercial customers and an increase of 91.47 percent for its irrigation customers.

Q. What are RUCO's recommended increases by customer classification?

A. RUCO is recommending an increase to residential customers rates of 24.32 percent, an increase of 36.76 percent to commercial customers and an increase of 35.64 percent to the Company's irrigation customers.

RATE BASE ADJUSTMENTS

Q. Is RUCO recommending any changes to the Company's proposed rate base?

A. Yes. RUCO analyzed the Company's rate base adjustments to its historical test year and made adjustments to the rate base as filed by the Company. The cumulative review, analysis and adjustments made by RUCO are explained on the succeeding pages.

Rate Base Adjustment #1 – Convert Advances in Aid of Construction (AIAC) to Contribution in Aid of Construction (CIAC).

Q. Can you please explain the adjustment that converts the balance in the Company's AIAC to CIAC?

A. During the discovery phase in this case, it was determined by the Company that it had a single line extension contract recorded as AIAC in the Wastewater Division. Pima stated the following:

¹Due to the bankruptcy of the developer, Pima has been unable to pay the refunds due to the developer and is unaware of a successor entity to which payments can be made. Since it is unlikely that Pima will ever be able to actually pay the amounts due, Pima believes it may be more appropriate to eliminate the account payable to the developer and reclassify the full amount of the original advance to Contributions in Aid of Construction.

¹ See Company Response to Staff Data Request CSB 1-11

1 **Q. Does RUCO agree with the Company's suggestion to reclassify the**
2 **AIAC balance to CIAC?**

3 A. Yes.
4

5 **Q. What adjustment did you make to convert the AIAC to CIAC?**

6 A. RUCO reversed the existing balance remaining in AIAC of \$374,236 and
7 included it in CIAC. In addition Pima calculated \$49,353 due to the
8 developer in 2010 but due to bankruptcy of the developer has been unable
9 to pay the refunds. There is no successor to the bankrupt developer.
10 RUCO believes as does the Company² that the remaining funds of
11 \$374,236 as well as the \$49,353 established as a payable to the
12 developer, for a total of \$423,589, be transferred to CIAC. Pima is
13 requesting a Staff recommendation including the appropriate accounting
14 order to reclassify this AIAC to a more appropriate CIAC non-refundable
15 account.
16

17 Rate Base Adjustment #2 – Capitalize Expensed Items to Plant

18 **Q. Is RUCO recommending other adjustments to the Company's**
19 **adjusted test year rate base?**

20 A. Yes, RUCO is recommending reclassification of expenses reported in two
21 separate expense accounts to UPIS. ³During the discovery phase Pima
22 was requested to explain the increases in several expense accounts.

² See Company Response to Staff Data Request CSB 1-11

³ See Company Response to Staff Data Request CSB 1-29 and CSB 1-31

1 Based on their review of Repairs and Maintenance Expense and
2 Contractual Services Expense – Engineering, the Company identified
3 \$21,629 and \$3,902 respectively, which were inappropriately classified to
4 expense rather than UPIS.

5
6 **Q. Does RUCO agree with the reclassification of these expenses?**

7 A. Yes, RUCO agrees with this reclassification. We reviewed the nature and
8 description of the expenses and concluded that they should be included in
9 UPIS.

10
11 **OPERATING INCOME ADJUSTMENTS**

12 Operating Income Summary

13 **Q. Can you please explain the operating income adjustments that RUCO**
14 **is recommending in your testimony?**

15 A. After performing a review of the Company's filing RUCO is recommending
16 the following adjustments.

17
18 Operating Income Adjustment #1 - Depreciation Expense

19 **Q. Is Pima Water Division proposing a change in depreciation rates in**
20 **their application going forward?**

21 A. Yes, Pima Water Division is requesting an adjustment in depreciation
22 rates going forward. The Water Division has been depreciating UPIS
23 service at the rate of 3% per year as was approved in Decision No. 58743,

1 dated August 11, 1994. They are now proposing to use account specific
2 rates on a going forward basis.

3
4 **Q. Does RUCO agree with the request to adjust depreciation rates?**

5 A. Yes. The rates being proposed are the same rates as published by the
6 Arizona Corporation Commission Utilities Staff in general guidelines dated
7 April 21, 2000. These guidelines are still in effect as they have not been
8 updated since that time.

9
10 **Q. Did you recalculate annual depreciation since the last rate case filing**
11 **and what were the results of your recalculation?**

12 A. Yes, I did recalculate the depreciation expenses since last rate case filing
13 and I found no discrepancies.

14
15 **Q. Have you made any changes to the Company's adjusted test year**
16 **depreciation expense?**

17 A. Yes, as a result of reclassifying, during the test year, Repairs and
18 Maintenance Expense of \$21,629 and Contractual Services Expense –
19 Engineering of \$3,902, from expense to UPIS, Depreciation Expense has
20 been increased to \$1,945.

1 **Q. Have you recommended any adjustments resulting from the**
2 **reclassification from AIAC to CIAC that RUCO is recommending?**

3 A. Yes, RUCO has proposed an increase of \$21,065 related to the
4 amortization of the additional CIAC as previously discussed.

5
6 **Q. What is the result of these two adjustments?**

7 A. As shown on Schedule RBM-10 the net effect of the two adjustments is a
8 reduction in total Depreciation Expense of \$19,120.

9
10 Operating Income Adjustment #2 – Property Tax Expense

11 **Q. Is RUCO recommending an adjustment to Property Tax Expense for**
12 **the Water Division as filed by the Company?**

13 A. Yes, RUCO is recommending a reduction in test year Property Tax
14 Expense of \$6,851. There are two separate adjustments that make up the
15 total amount of the reduction.

16
17 **Q. Can you please explain the first adjustment?**

18 A. The first adjustment of \$6,167 is related to what the Company has
19 included in their property tax adjustment titled "Tax on Parcels." In the
20 recent Goodman Water Company rate case, Docket No. W-02500A-10-
21 0382, Staff witness testified as follows:

22 "I contacted the Arizona Department of Revenue personnel
23 that deal with centrally valued properties and inquired about
24 why there might be any such thing in a water utility's tax bill
25 and they assured me that there is no such thing; and they

1 did some research on it and got back to me, and they
2 assured me that there is no such thing, and that one
3 hundred percent of the property tax is based on revenues.
4 And so we just want to comment that we don't anticipate that
5 in future rate cases that we'll be providing any amount for
6 taxes on Parcels."⁴
7

8 **Q. What is the second adjustment that RUCO is proposing?**

9 A. RUCO is proposing a reduction in the composite property tax rate from
10 10.0442 percent to 9.9952 percent. This small reduction in percentage
11 reduces property tax expense by \$684.
12

13 Operating Income Adjustment #3 – Remove Repairs and Maintenance
14 Expense Reclassified to UPIS

15 **Q. Can you please explain the adjustment that you are making to**
16 **Repairs and Maintenance Expense?**

17 A. Yes, as previously discussed in Rate Base Adjustment #2, the Company
18 recorded \$21,629 in Repairs and Maintenance Expense that should be
19 more appropriately classified as UPIS. ⁵The Company, during discovery,
20 identified the improper classification and indicated they would adjust, if
21 necessary, in future testimony.
22
23
24

⁴ Tr. Pages 969 and 970 (Mr. Gordon L. Fox)

⁵ See Company Response to Staff Data Request CSB 1-29

Operating Income Adjustment #4 – Contractual Services Expense –
Engineering Reclassified to UPIS

Q. Can you please explain the adjustment that you are recommending to Contractual Services Expense - Engineering?

A. Yes, as previously discussed in Rate Base Adjustment #2, the Company recorded \$3,902 in Contractual Services Expense - Engineering that should be more appropriately classified as UPIS. ⁶During discovery, the Company, identified the improper classification and indicated they would adjust, if necessary, in future testimony.

Q. Do you agree with the reclassification of both Repairs and Maintenance Expense and Contractual Services Expense Engineering to UPIS?

A. Yes. After reviewing the nature of these expenses they should have been accounted for a UPIS.

Operating Income Adjustment #5 – Rate Case Expense

Q. Has RUCO made an adjustment to Pima's requested level of rate case expense?

A. Yes. RUCO has reduced Pima's requested total level of rate case expense of \$200,000 by \$50,000 for a total rate case expense of \$150,000 or 37,500 per year over a four-year period.

⁶ See Company Response to Staff Data Request CSB 1-31

1 **Q. How did RUCO arrive at its adjustment to rate case expense?**

2 A. RUCO's compared the Company-proposed level of rate case expense to
3 levels of rate case expense that were incurred in other rate cases before
4 the Commission. Based on RUCO's review, RUCO believes that the
5 Company's request is not reasonable in this case.
6

7 **Q. What other rate cases did RUCO review?**

8 A. RUCO reviewed a number of cases that involved utilities such as Arizona
9 Water Company ("AWC") and UNS Gas, Inc. ("UNSG"). The most
10 compelling case that RUCO looked at involved Sunrise Water Co.⁷
11 ("Sunrise"), a Class B water provider organized as an S corporation like
12 Pima. In that case, which was filed in August 2008 and decided on in
13 December, 2009, the Commission adopted a total level of rate case
14 expense of \$82,500 or \$27,500 to be amortized over three years. The
15 Sunrise rate case involved a number of ratemaking issues including the
16 recovery of income taxes in rates. Sunrise obtained the services of an
17 outside attorney and a professional consultant (Mr. Ray Jones who is also
18 testifying in this case on behalf of Pima). Given the similarities of the two
19 cases, RUCO believes that the Sunrise case is a good yardstick for
20 determining the reasonableness of Pima's requested level of rate case
21 expense. Despite the similarities, RUCO's recommended total rate case

⁷ Docket No. W-02069A-08-0406

1 expense of \$150,000 for Pima is \$67,500 more than what the Commission
2 adopted for Sunrise in Decision No. 71445.

3
4 **Q. How did the rate case expense levels of other utilities compare with**
5 **the level of rate case expense requested by Pima?**

6 A. In a prior rate cases for AWC's Northern and Eastern Groups⁸, which were
7 comprised of five and eight individual water systems respectively, the
8 Commission approved a total of \$250,000 in rate case expense for each
9 Group, or \$50,000 more than Pima's requested level of expense in this
10 proceeding. The Commission later authorized \$250,000 in rate case
11 expense for a case involving AWC's Western Group⁹ which was
12 comprised of five separate water systems. In the most recent rate cases
13 for AWC's Western and Eastern Groups, AWC requested total rate case
14 expense of \$626,156¹⁰ and \$476,874 respectively. While these requested
15 amounts are \$226,156 and \$76,874 higher than the \$400,000 that Pima is
16 seeking for both its Water and Wastewater Systems, it has to be
17 remembered that AWC is a statewide Class A utility and its filings
18 consisted of multiple water systems where this case only involved two
19 operating divisions.

20

⁸ Decision No. Decision No. 64282, dated December 28, 2001 and Decision No. 66849, dated March 19, 2005

⁹ Decision No. 68302, dated November 14, 2005

¹⁰ AWC eventually agreed to RUCO's total rate case expense figure of \$304,975

1 In the pending UNSG rate case, UNSG requested a total rate case
2 expense of \$700,000. UNSG is a Class A public service corporation that
3 serves far more customers over a much larger service territory than Pima.
4 UNSG's rate case is much bigger, involved more parties and also deals
5 with more complex ratemaking issues such as decoupling. Both ACC
6 Staff and RUCO are recommending that UNSG's requested level of
7 expense be reduced to \$400,000, which is the same amount that Pima is
8 requesting for the Company's Water and Wastewater Divisions combined.

9
10 Based on the comparisons provided above RUCO believes that its
11 \$37,500 recommended annual level of rate case expense is reasonable
12 and should be adopted by the Commission.

13
14 **Q. Are there any other issues regarding rate case expense that RUCO**
15 **wants to address?**

16 **A.** Yes. RUCO is concerned that traditional rate recovery for rate case
17 expense is an inequitable solution for Pima. Normally, rate case expense
18 is amortized / normalized over a short period of years that is reflective of
19 the typical amount of time a utility stays out between rate cases.
20 However, Pima does not come in for rate cases very often. The water
21 division filed its last rate case with a Test Year ending December 31, 1992
22 while the wastewater division's last rate case was filed with a Test Year
23 ending December 31, 1997.

1 If history repeats itself and it normally does, this long stay out would result
2 in a windfall to the Company since rate case expense is a non-recurring
3 expense and will be collected through rates until the Company's next rate
4 case. For example, this scenario is based on the Company Wastewater
5 Division's requested amount of annual rate case expense of \$50,000
6 (\$200,000 of total rate case expense / amortized over 4 years = \$50,000
7 of annual rate case expense). If the Company does not file another rate
8 case for another 20 to years, the Company would collect \$1,000,000
9 (\$50,000 of annual rate case expense x 20 years = \$1,000,000) in rate
10 case expense through its base rates from Pima's ratepayers. If the
11 Company does not file another rate case for 15 years, Pima would collect
12 \$750,000 in rate case expense through its base rates. This amounts to an
13 over-collection of rate case expense of five-fold in the 20 year scenario
14 and 3.75 times in the 15 year scenario. Had the Commission authorized a
15 \$50,000 annual rate case expense in Decision Nos. 58743 and 62184
16 dated August 11, 1994, and January 5, 2000 respectively, the scenario
17 described above would have actually happened.

1 **Q. Why does RUCO believe that it “is likely” that the Company will not**
2 **file a rate case for another 15 to 20 years?**

3 A. By the Company’s own admission,¹¹ “Pima Utility Company’s service area
4 is built out.” There are limited reasons in the foreseeable future for the
5 Company to file another rate case anytime soon.
6

7 **Q. What does RUCO recommend to prevent or curtail that event from**
8 **happening in the future?**

9 A. RUCO offers three different options that would prevent the above scenario
10 from happening. First, a surcharge for rate case expense could be
11 applied as a separate line item on the customers’ bill. When the rate case
12 expense authorized in this proceeding has been fully collected through the
13 surcharge, the surcharge would be eliminated and nothing but base rates
14 would apply going forward.
15

16 The second option is to extend the normalization period to ten years. This
17 option would lower rates. If the Company were to file a rate case prior to
18 fully collecting the authorized rate case expense, RUCO recommends that
19 the Company be granted a deferred accounting order, which would allow
20 Pima to amortize the remaining unrecovered expense over some period of
21 time. This option completely eliminates the possibility of under-collecting
22 the authorized level of rate case expense. The third option simply reduces

¹¹ See Company data response to Staff data request CSB 1-12.

1 the Company's level of authorized rate case expense with no deferred
2 accounting order.

3
4 Of the three options, RUCO recommends the second option. Increasing
5 the normalization will ameliorate the rate impact on ratepayers. It will
6 further avoid the often unfavorable response of the public to a surcharge.
7 Finally, while RUCO would not object to a reduction in the overall rate
8 case expense, it is recommending. RUCO will reserve its right to further
9 explore this option in coming up with a final recommendation as to a
10 reasonable amount of rate case expense.

11
12 Operating Income Adjustment #6 – Miscellaneous Expense Bank Fees

13 **Q. Will you please explain your adjustment to Banking Fees?**

14 **A.** Yes. RUCO made an adjustment decreasing test year Miscellaneous
15 Expenses by \$6,354 related to the Water Division. During discovery
16 Pima's responded to data request as follows:

17 "These costs were paid directly by Robson Communications,
18 Inc. (RCI) on behalf of several affiliate companies. These
19 costs are directly attributable to the amount of monthly
20 transactions that occurred in the Pima bank operating
21 account. These costs were allocated 100 percent to the
22 water company, but should have been allocated on a 50/50
23 basis. The support for these transactions has been
24 provided."
25

26 Based on Pima Company's internal procedures these costs were to be
27 shared by both the Water and Wastewater Divisions but were absorbed

1 entirely by the Water Division. The appropriate adjustment is being made
2 to correct the error.

3
4 Operating Income Adjustment #7 – Salaries and Wages Officers

5 **Q. Is RUCO recommending an adjustment to salaries paid to officers?**

6 A. Yes. RUCO believes that \$90,267 is an excessive salary paid to the
7 Chairman of the Board based on the Company's reporting that he worked
8 56.68 hours for the Water Division.

9
10 **Q. How did you become aware that he reported 56.68 hours as working**
11 **for the Water Division?**

12 A. The Company's response to data request, for salary and wage details,
13 provided a Schedule of Names, Titles and Burden by General Ledger
14 Account of all individual salary and wages charged to the Water Division.
15 Included on the salary schedule were the names of all individuals and the
16 number of hours charged to the Water Division for the entire year.
17 Included on the schedule was Mr. Robson, E.J., his title as Chairman of
18 the Board, the number of hours charged to the division, 56.68, and gross
19 salary paid of \$90,294. In addition, the Company is also requesting the
20 same amount as salary related to his duties for the Wastewater Division.
21 In summary, the Company is requesting an annual salary of \$180,588 for
22 the Chairman of the Board when his reported hours worked for both

1 divisions was 113. RUCO believes that this is unreasonable and Arizona
2 utility ratepayers should not have to bear this excessive expense.

3
4 **Q. Based on the number of hours and salary paid how much does that**
5 **calculate to be on an hourly basis?**

6 A. Based on the hours reported the hourly rate paid to Mr. Robson is \$1,593
7 per hour.

8
9 **Q. Has RUCO made an adjustment for Salaries and Wages Officers paid**
10 **by the Water Division?**

11 A. Yes. RUCO is recommending a salary of \$7,085. RUCO's
12 recommendation is based on the number of hours reported multiplied by
13 \$125 per hour. The hourly rate of \$125 is based on a comparable CEO of
14 a Class A Water Company within the local area.

15
16 Operating Income Adjustment #8, #9 and #10 – Intentionally Left Blank

17
18 Operating Income Adjustment #11 – Income Tax Expense

19 **Q. Can you please explain the adjustment you made to Income Tax**
20 **Expense?**

21 A. Yes. This adjustment removes the Company's pro forma adjustment in the
22 amount of \$27,157. The Company had taken a credit for income taxes

1 due to a net operating loss in its test year adjustments. Mr. Rigsby, will
2 discuss income tax allowances in his direct testimony.

3
4 **RATE DESIGN**

5 **Q. Can you please summarize RUCO's rate design for Pima Utilities**
6 **Water Division?**

7 A. Based on my analysis of the Company's rate application and
8 determination of recommended revenues, RUCO is recommending a rate
9 structure for the three classes of ratepayers as follows:

10
11

	Company Present	RUCO	
	Revenues	Revenues	% Change
12 ¹² Residential	\$1,391,693	\$1,730,177	24.32%
14 Commercial	\$ 274,663	\$ 375,632	36.76%
15 Irrigation	\$ 317,458	\$ 430,594	35.64%

16

17 **Q. Can you please describe RUCO's rate design?**

18 A. RUCO's rate design essentially mirrors the company proposed two and
19 three-tiered, inverted block rate design which captures approximately
20 44.36 percent of total revenue through the monthly minimum charge for
21 residential ratepayers.

22

¹² See Schedules RBM RD-1 through RBM RD-7 attached for Residential and Commercial ratepayers and Schedules RBM- RD-1 through RBM RD-5 for Irrigation ratepayers.

1 **Q. What would a typical monthly bill be for a 5/8 x 3/4 inch meter**
2 **residential customer under RUCO's recommended rates?**

3 A. Under RUCO's recommended residential rates, a 5/8 x 3/4 inch meter
4 using an average of 6,395 gallons per month, would have a typical
5 monthly bill of \$12.77 which is \$2.11, or 19.79 percent, higher than the
6 current bill of \$10.66.

7
8 **Q. Does this conclude your testimony on revenue requirements and**
9 **rate design?**

10 A. Yes it does.

APPENDIX

ROBERT B. MEASE Education and Professional Qualifications

EDUCATION

Bachelor's Degree Business Administration / Accounting - Morris Harvey College.

Attended West Virginia School of Graduate Studies and studied Accounting and Public Administration

Attended numerous courses and seminars for Continuing Professional Educational purposes.

WORK EXPERIENCE

Controller

Knives of Alaska, Inc., Diamond Blade, LLC., and Alaska Expedition Company.

Financial Manager / CFO

All Saints Camp & Conference Center

Energy West, Inc.

Vice President, Controller

- Led team that succeeded in obtaining a \$1.5 million annual utility rate increase
- Coached accountants for proper communication techniques with Public Service Commission, supervised 9 professional accountants
- Developed financial models used to negotiate an \$18 million credit line
- Responsible for monthly, quarterly and annual financial statements for internal and external purposes, SEC filings on a quarterly and annual basis, quarterly presentations to Board of Directors and shareholders during annual meetings, coordinated annual audit
- Communication with senior management team, supervised accounting staff and resolved all accounting issues, reviewed expenditures related to capital projects
- Monitored natural gas prices and worked with senior buyers to ensure optimal price obtained

Junkermier, Clark, Campanella, Stevens

Consulting Staff

- Established a consulting practice that generated approximately \$160k the first year of existence
- Prepared business plan and projections for inclusion in clients financing documents
- Prepared written reports related to consulting engagements performed
- Developed models used in financing documents and made available for other personnel to use
- Performed Profit Enhancement engagements
- Participated during audit of large manufacturing client for two reporting years

Prior to 1999, held various positions: TMC Sales, Inc. as **Vice President / Controller**, with American Agri-Technology Corporation as **Vice President / CFO** and with Union Carbide Corporation as **Accounting Manager**. (Union Carbide was a multi-national Fortune 500 Company that was purchased by Dow Chemical)

PROFESSIONAL AFFILIATIONS

Member - Institute of Management Accountants

Member - American Institute of CPA's

Past Member - WV Society of CPA's and Montana Society of CPA's

PIMA WATER DIVISION

REVENUE SCHEDULES

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RBM-18	1	OPERATING INCOME ADJUSTMENT NO. 11- INCOME TAXES
RBM-19	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base (RBM-2)	\$ 9,097,529	\$ 9,073,286
2			
3	Adjusted Operating Income (Loss)	\$ 132,560	\$ 258,968
4			
5	Current Rate of Return (L3 / L1)	1.46%	2.85%
6			
7	Required Operating Income (L9 X L1)	\$ 861,536	\$ 817,503
8			
9	Required Rate of Return on Fair Value Rate Base (RBM-19)	9.47%	9.01%
10			
11	Operating Income Deficiency (L7 - L3)	\$ 728,976	\$ 558,535
12			
13	Gross Revenue Conversion Factor (RBM-1, Page 2)	1.4041	1.0135
14			
15	Required Increase in Gross Revenue Requirement (L11 X L13))	\$ 1,023,565	\$ 566,048
16			
17	Adjusted Test Year Revenue (RBM-7)	\$ 1,977,627	\$ 1,977,627
18			
19	Proposed Annual Revenue (L15 + L17)	\$ 3,001,192	\$ 2,543,675
20			
21	Required Percentage Increase in Revenue (L15 / L17)	51.76%	28.62%

References:

Column (A): Company Schs. A-1

Column (B): RUCO Schs. RBM-1 page 2, RBM-2, RBM-7, and RBM-19

GROSS REVENUE CONVERSION FACTOR

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>(A)</u>
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:		
1	Revenue	100.0000%
2	Proposed Bad Debt Expense (Per Co. Work papers)	-
3	Subtotal (L1 thru L2)	100.0000%
4	Property Tax Rate (RBM-11)	1.3274%
5	Subtotal (L3 - L4)	98.6726%
6	Revenue Conversion Factor (L1 / L5)	1.0135

SUMMARY RATE BASE - ORIGINAL COST

	(A)	(B)	(C)
	<u>COMPANY AS FILED OCRB/FVRB</u>	<u>Summary RUCO Rate Base Adjustments</u>	<u>Adjusted End of Test Year</u>
1 Gross Utility Plant in Service	\$ 14,546,128	\$ 25,531	\$ 14,571,659
2			
3 Less:			
4 Accumulated Depreciation	<u>(4,788,167)</u>	<u>\$ (383)</u>	<u>\$ (4,788,550)</u>
5			
6 Net Utility Plant in Service (L1 + L4)	\$ 9,757,961	\$ 25,148	\$ 9,783,109
7			
8 Advances in Aid of Construction	\$ (374,236)	\$ 374,236	\$ -
9			
10 Contribution in Aid of Construction	(632,417)	(423,629)	(1,056,046)
11 Accumulated Amortization CIAC	<u>346,223</u>	<u>\$ -</u>	<u>\$ 346,223</u>
12			
13 Net CIAC (L10 + L11)	\$ (286,194)	\$ (423,629)	\$ (709,823)
14			
15 Add:			
16 Allowance for Working Capital	\$ -	\$ -	\$ -
17			
18 Net Regulatory Asset (Liability)	\$ -	\$ -	\$ -
19			
20 Rounding	<u>\$ (2)</u>	<u>\$ -</u>	<u>\$ -</u>
21			
22 Total Rate Base (L6 + L8 + L13+L19)	<u>\$ 9,097,529</u>	<u>\$ (24,245)</u>	<u>\$ 9,073,286</u>

Columns (A), and (B) - Schedule RBM-3
Columns (C) - Columns (A) + (B)

SUMMARY OF ORIGINAL COST RATE BASE WITH RUCO ADJUSTMENTS

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
COMPANY AS FILED OCRB/FVRB	ADJMT NO. 1 CONVERT AIAC TO CIAC	ADJMT NO. 2 CAP / EXP ITEMS	ADJMT NO. 3 LEFT BLANK	ADJMT NO. 4 LEFT BLANK	ADJMT NO. 5 LEFT BLANK	Summary Rate Base Adjustments	Adjusted End of Test Year
\$ 14,546,128	\$ -	\$ 25,531	\$ -	\$ -	\$ -	\$ 25,531	\$ 14,571,659
(4,788,167)	-	(383)	-	-	-	(383)	(4,788,550)
\$ 9,757,961	\$ -	\$ 25,148	-	-	-	\$ 25,148	\$ 9,783,109
\$ (374,236)	\$ 374,236	-	-	-	-	\$ 374,236	-
(632,417)	(423,629)					(423,629)	(1,056,046)
346,223	-	-	-	-	-	-	346,223
\$ (286,194)	\$ (423,629)	-	-	-	-	(423,629)	(709,823)
\$ -	-	-	-	-	-	-	-
\$ -	-	-	-	-	-	-	-
\$ (2)	-	-	-	-	-	-	-
\$ 9,097,529	\$ (49,393)	\$ 25,148	\$ -	\$ -	\$ -	\$ (24,245)	\$ 9,073,286

1 Gross Utility Plant in Service
2
3 Less:
4 Accumulated Depreciation
5
6 Net Utility Plant in Service (L1 - L4)
7
8 Advances in Aid of Construction
9
10 Contribution in Aid of Construction
11 Accumulated Amortization CIAC
12
13 Net CIAC (L10 + L11)
14
15 Add:
16 Allowance for Working Capital
17
18 Net Regulatory Asset (Liability)
19
20 Rounding
21
22 Total Rate Base (L6 + L8 + L13)
23
24
25 Column (A) Per Company Schedules
26 Column (B) - RBM-6
27 Column (C) - RBM-6, Page 2
28 Column (G) - Sum Column (A) to (F)
29 Column (F) - Column (A) - (G)
30
31
32

ORIGINAL COST PLANT IN SERVICE WITH COMPANY ADJUSTMENTS

	(A) Original Cost	(B) to Sewer Division	(C) RECLASSIFIED from Sewer Division	(D) Retirement Adjustments	(E) Prior Decision Conforming Adjustments	(F) Plant Reclassification	(G) Adjusted Cost
1 301 Organization Cost	-	-	-	-	-	-	-
2 302 Franchise Cost	-	-	-	-	-	-	-
3 303 Land and Land Rights	97,637	-	-	-	-	-	97,637
4 304 Structures & Improvements	2,291,996	(246,883)	3,950	(6,400)	-	(1,727,538)	315,125
5 305 Collecting & Impounding Reservoirs	-	-	-	-	-	-	-
6 306 Lake, River, Canal Intakes	-	-	-	-	-	-	-
7 307 Wells & Springs	1,789,332	(972,509)	-	(43,942)	-	(166,182)	606,899
8 308 Infiltration Galleries	-	-	-	-	-	-	-
9 309 Raw Water Supply Mains	-	-	-	-	-	-	-
10 310 Power Generation Equipment	-	-	-	-	-	-	-
11 311 Pumping Equipment	829,942	(1,587,774)	-	(424,468)	-	3,446,101	2,263,801
12 320 Water Treatment Equipment	-	-	-	-	-	-	-
13 320.1 Water Treatment Plants	-	-	-	-	-	-	-
14 320.2 Solution Chemical Feeders	-	(713)	-	(17,634)	-	76,602	58,255
15 330 Distribution Reservoirs & Standpipes	2,707,572	-	-	-	-	(2,707,572)	-
16 330.1 Storage Tanks	-	-	-	(1,000)	-	1,103,197	1,102,197
17 330.2 Pressure Tanks	-	-	-	(11,433)	-	85,370	73,937
18 331 Transmission & Distribution Mains	3,056,451	-	9,148	-	-	(149,550)	2,916,049
19 333 Services	4,498,820	(6,613)	-	-	-	216,941	4,709,148
20 334 Meters	1,011,318	(5,144)	-	-	-	(82,972)	923,202
21 335 Hydrants	891,614	-	-	(3,000)	-	(1,233)	887,381
22 336 Backflow Prevention Devices	-	-	-	-	-	-	-
23 339 Other Plant & Misc Equipment	-	-	-	-	-	-	-
24 340 Office Furniture & Equipment	657,115	-	-	(1,687)	-	(651,188)	4,240
25 340.1 Computers & Software	-	-	-	(5,014)	-	33,493	28,479
26 341 Transportation Equipment	-	-	-	(18,572)	-	80,207	61,635
27 342 Stores Equipment	-	-	-	-	-	-	-
28 343 Tools, Shop & Garage Equipment	-	(1,423)	2,305	(24,634)	15,121	143,137	134,506
29 344 Laboratory Equipment	-	-	-	-	-	-	-
30 345 Power Operated Equipment	59,539	-	-	-	-	65,360	124,899
31 346 Communication Equipment	13,239	-	-	(10,126)	-	235,826	238,939
32 347 Miscellaneous Equipment	-	-	-	-	-	-	-
33 348 Other Tangible Plant	-	-	-	-	-	-	-
34 Const. Work in Progress	-	-	-	-	-	-	-
TOTALS	\$ 17,904,574	\$ (2,821,059)	\$ 15,403	\$ (567,910)	\$ 15,121	\$ (1)	\$ 14,546,128

Less: Accumulated Depreciation
Utility Plant In Service end of Test Year
\$ (4,788,167)
\$ 9,757,961

Column (A) - Original Cost per Company books prior to adjustments.
Column (B), (C), (D), (E) - Adjustments identified per Company review and testimony.

DIRECT PLANT AND ACCUMULATED DEPRECIATION

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Corrected Plant at 12/31/1992	Accum. Deprec. At 12/31/1992	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	92,551	-	-	-	-	-	-	-	-	-	97,637	-
4	304	Structures & Improvements	3.00%	63,366	27,823	-	-	-	-	-	-	-	9,454	315,125	139,449
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	153,447	67,375	-	-	-	-	-	-	-	-	606,700	-
8	308	Infiltration Galleries	3.00%	-	-	11,050	-	11,050	-	-	-	-	18,035	-	281,441
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	204,563	89,819	220,917	(52,091)	168,826	-	77,407	77,407	-	66,543	2,263,798	369,988
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	19,839	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	8,051	-	8,051	-	2,000	2,000	-	1,657	58,255	9,890
16	330.1	Storage Tanks	3.00%	215,634	94,681	-	-	-	-	-	-	-	-	1,102,197	490,208
17	330.2	Pressure Tanks	3.00%	10,000	4,391	1,433	-	1,433	-	1,433	1,433	-	2,218	73,936	24,279
18	331	Transmission & Distribution Mains	3.00%	1,100,025	482,998	-	-	-	-	-	-	-	87,481	2,916,048	1,625,867
19	333	Services	3.00%	527,245	231,502	199,648	-	199,648	20,746	-	20,746	-	138,591	4,709,148	861,057
20	334	Meters	3.00%	162,498	71,350	29,776	-	29,776	-	-	-	-	27,249	923,202	361,891
21	335	Hydrants	3.00%	428,450	188,123	-	-	-	-	-	-	-	26,621	887,382	550,135
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	2,640	1,159	3,867	-	3,867	-	-	-	-	127	4,240	110
24	340	Office Furniture & Equipment	3.00%	-	-	-	-	-	-	-	-	-	796	28,479	278
25	340.1	Computers & Software	3.00%	-	6,510	-	-	-	5,851	-	5,851	-	1,937	61,635	(51,074)
26	341	Transportation Equipment	3.00%	14,826	-	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	41,317	18,141	24,539	-	24,539	-	-	-	-	3,667	134,507	34,251
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	-	-	5,239	-	5,239	-	-	-	-	3,668	124,899	34,114
31	346	Communication Equipment	3.00%	1,561	686	-	-	-	-	-	-	-	7,168	238,939	76,482
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-	-	-
34	-	Const. Work in Progress	3.00%	-	-	-	-	-	-	-	-	-	-	-	-
35	-	TOTALS	-	3,037,962	1,293,269	504,520	(52,091)	452,429	26,597	80,840	107,437	-	428,280	14,546,127	4,788,167

Reviewed each year additions and deletions since last rate case in 1992
Calculated depreciation each year based on depreciation rate (3%) established last rate case
Results - Determined that plant balances each year and Accumulated Depreciation at the end of test year were correct.

**RATE BASE ADJUSTMENT NO. 1
RECLASSIFICATION (AIAC) TO (CIAC)**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	AIAC as Company Filed	\$ 374,236	\$ (374,236)	\$ -
2	RUCO Recommended AIAC Adjustment			\$ 374,236
3	Net CIAC as Company Filed	\$ 632,418	\$ (423,629)	\$ (1,056,047)
4	RUCO Recommended CIAC Adjustment			\$ (423,629)

RUCO CIAC ADJUSTMENT CALCULATION:

5	Company Net CIAC as Filed		\$ 632,418
6	RUCO's Recommended Net AIAC Conversion to CIAC as Company Filed		374,236
	Plus:		
7	Unpaid AIAC Refunds as Calculated by Company (See Co. Response to Staff Sewer DR CSB 1-12)		49,393
8	RUCO's Recommended Gross AIAC Conversion to CIAC Adjustment (Line 6 + Line 7)		\$ 423,629
9	RUCO Recommended CIAC Adjustment (Line 8)		\$ (423,629)

RATE BASE ADJUSTMENT NO. 2
CAPITALIZE PREVIOUSLY EXPENSED ITEMS TO PLANT ACCOUNTS

Line No.		Amount
1	<u>Reclass from Repairs and Maintenance Expense (see below)</u>	
2	Capitalize Expensed Items to NARUC Plant Accounts:	
3	311 - Pumping Equipment	\$ 3,371
4	320.2 - Solution Chemicals Feeders	2,566
5	333 - Services	15,692
6		
7	<u>Reclass from Repairs and Maintenance Expense (see below)</u>	\$ 21,629
8		
9	Calculation of Accumulated Depreciation	
10	Total Reclass to UPIS	\$ 21,629
11	Test Year Depreciation Rate	3%
12	Calculated Depreciation Expense	\$ 649
13		
14	One-Half Year Convention to Test Year Accumulated Depreciation	\$ 324
15		
16		
17	<u>Reclass from Contractual Services - Engineering (see below)</u>	
18		
19	Capitalize Expensed Items to NARUC Plant Accounts:	
20	311 - Pumping Equipment	\$ 3,902
21		
22	<u>Reclass from Contractual Services Expense</u>	\$ 3,902
23		
24	Calculation of Accumulated Depreciation	
25	Total Reclass to UPIS	\$ 3,902
26	Test Year Depreciation Rate	3%
27	Calculated Depreciation Expense	\$ 117
28		
29	One-Half Year Convention to Test Year Accumulated Depreciation	\$ 59
30		
31		
32	<u>SUMMARY</u>	
33		
34		Account Number
35		311 320.2 333 Total
36	Reclass from Repairs and Maintenance Expense	\$ 3,371 \$ 2,566 \$ 15,692 \$ 21,629
37	Reclass from Contractual Services Expense	\$ 3,902 \$ - \$ - \$ 3,902
38	TOTAL RECLASS FROM EXPENSE TO UPIS	\$ 7,273 \$ 2,566 \$ 15,692 \$ 25,531

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMT'S	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
1	Revenues					
2	Metered Water Revenues	\$ 1,970,366		\$ 1,970,366	566,048	\$ 2,536,414
3	Unmetered Water Revenues	-		-		-
4	Other Water Revenues	7,261		7,261		7,261
5	Total Revenues	<u>1,977,627</u>	<u>-</u>	<u>1,977,627</u>	<u>566,048</u>	<u>2,543,675</u>
6	Operating Expenses					
7	Salaries and Wages	220,827	-	220,827		220,827
8	Salaries and Wages - Officers and Directors	90,294	(83,209)	7,085		7,085
9	Employee Pensions and Benefits	64,900		64,900		64,900
10	Purchased Water	-	-	-		-
11	Purchased Power	252,454	-	252,454		252,454
12	Chemicals	16,721	-	16,721		16,721
13	Repairs and Maintenance	100,885	(21,629)	79,256		79,256
14	Office Supplies and Expense	67,321	-	67,321		67,321
15	Contractual Services - Engineering	5,283	(3,902)	1,381		1,381
16	Contractual Services - Accounting	3,067	-	3,067		3,067
17	Contractual Services - Legal	14,175	-	14,175		14,175
18	Contractual Services - Other	54,797	-	54,797		54,797
19	Contractual Services - Water Testing	18,737	-	18,737		18,737
20	Rents - Equipment	3,203	-	3,203		3,203
21	Transportation Expenses	44,637	-	44,637		44,637
22	Insurance - Vehicle	17,464	-	17,464		17,464
23	Insurance - General Liability	10,840	-	10,840		10,840
24	Insurance - Worker's Comp	1,009	-	1,009		1,009
25	Regulatory Commission Expense	3,671	-	3,671		3,671
26	Regulatory Commission Expense - Rate Case	50,000	(12,500)	37,500		37,500
27	Bad Debt Expense	4,766	-	4,766		4,766
28	Miscellaneous Expense	15,934	(6,354)	9,581		9,581
29	Depreciation Expense	666,997	(19,120)	667,877		667,877
30	Taxes Other Than Income	40,883	-	40,883		40,883
31	Property Taxes	83,358	(6,851)	76,507	7,513	84,020
32	Income Tax	(27,157)	27,157	-	-	-
33						
34	Total Operating Expenses	<u>1,845,067</u>	<u>(126,408)</u>	<u>1,718,659</u>	<u>7,513</u>	<u>1,726,173</u>
35	Operating Income	<u>132,561</u>	<u>126,408</u>	<u>258,968</u>	<u>558,535</u>	<u>817,502</u>

Column (A) and Column (B) - RBM-8
Column (C) - Sum Column (A) + (B)
Column (E) - Sum Column (C) + (D)

SCHEDULE OF OPERATING INCOME - TEST YR WITH COMPANY RUO ADJUSTMENTS

Line No.	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)
	Test Year Ended 12/31/2010	Depreciation IS-1	Property Taxes IS-2	Repairs and Maintenance IS-3	Contractual Engineering IS-4	Rate Case Expense IS-5	Miscellaneous Bank Fees IS-6	Shareholder Salaries IS-7	LEFT BLANK IS-8	LEFT BLANK IS-9	LEFT BLANK IS-10	Income Tax IS-11	SUMMARY ADJUSTMENTS	TEST YEAR ADJUSTED RESULTS
1	Revenues													
2	Metered Water Revenues	\$ 1,970,366											\$ -	\$ 1,970,366
3	Unmetered Water Revenues	7,261											-	-
4	Other Water Revenues												-	-
5	Total Revenues	\$ 1,977,627	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,977,627
6	Operating Expenses													
7	Salaries and Wages	220,827											-	220,827
8	Salaries and Wages - Officers and Directors	90,294						(83,209)					(83,209)	7,085
9	Employee Pensions and Benefits	64,900											-	64,900
10	Purchased Water												-	-
11	Purchased Power	252,454											-	252,454
12	Chemicals	16,721											-	16,721
13	Repairs and Maintenance	100,865											-	100,865
14	Office Supplies and Expense	67,321											-	67,321
15	Contractual Services - Engineering	5,283											-	5,283
16	Contractual Services - Accounting	3,067											-	3,067
17	Contractual Services - Legal	14,175											-	14,175
18	Contractual Services - Other	54,797											-	54,797
19	Contractual Services - Water Testing	18,737											-	18,737
20	Rents - Equipment	3,203											-	3,203
21	Transportation Expenses	44,637											-	44,637
22	Insurance - Vehicle	17,464											-	17,464
23	Insurance - General Liability	10,840											-	10,840
24	Insurance - Worker's Comp	1,009											-	1,009
25	Regulatory Commission Expense	3,671											-	3,671
26	Regulatory Commission Expense - Rate Case	50,000											-	50,000
27	Bad Debt Expense	4,766											-	4,766
28	Miscellaneous Expense	15,934											-	15,934
29	Depreciation Expense	686,997											-	686,997
30	Taxes Other Than Income	40,883											-	40,883
31	Property Taxes	83,358											-	83,358
32	Income Tax												-	
33		(27,157)											-	(27,157)
34	Total Operating Expenses	\$ 1,845,067	\$ (19,120)	\$ (6,851)	\$ (21,629)	\$ (3,902)	\$ (12,500)	\$ (6,354)	\$ (83,209)	\$ -	\$ -	\$ 27,157	\$ (126,408)	\$ 1,718,659
35	Operating Income	\$ 132,561	\$ 19,120	\$ 6,851	\$ 21,629	\$ 3,902	\$ 12,500	\$ 6,354	\$ 83,209	\$ -	\$ -	\$ (27,157)	\$ 126,408	\$ 258,968

Column (A) RBM-9
Column (B) RBM-10
Column (C) RBM-11
Column (D) RBM-12
Column (E) RBM-13
Column (F) RBM-14
Column (G) RBM-15
Column (H) RBM-16
Column (I) RBM-17
Column (J) RBM-18

SCHEDULE OF OPERATING INCOME - TESR YR WITH COMPANY ADJUSTMENTS

Line No.	[A]	[B]	[C]	[D]	(E)	(F)	(G)	(H)	(I)		
	Test Year Ended 12/31/2010	Depreciation IS - 1	Property Taxes IS - 2	Rate Case Expense IS - 3	Revenue Annualization IS - 4	Purchased Power Misc IS - 5	Annualized Purchased Power IS - 6	Interest Synch. IS - 7	Income Tax IS - 8	SUMMARY ADJUSTMENTS	TEST YEAR ADJUSTED RESULTS
1											
2	Metered Water Revenues										
3	Unmetered Water Revenues										
4	Other Water Revenues										
5	Total Revenues	\$ 1,976,508			\$ (6,142)					\$ (6,142)	\$ 1,970,366
6	Operating Expenses	7,261									7,261
7	Salaries and Wages	220,827									220,827
8	Salaries and Wages - Officers and Directors	90,294									90,294
9	Employee Pensions and Benefits	64,900									64,900
10	Purchased Water	-									-
11	Purchased Power	228,469				27,205	(3,220)			23,985	252,454
12	Chemicals	16,721									16,721
13	Repairs and Maintenance	100,885									100,885
14	Office Supplies and Expense	67,321									67,321
15	Contractual Services - Engineering	5,283									5,283
16	Contractual Services - Accounting	3,067									3,067
17	Contractual Services - Legal	14,175									14,175
18	Contractual Services - Other	54,797									54,797
19	Contractual Services - Water Testing	18,737									18,737
20	Rents - Equipment	3,203									3,203
21	Transportation Expenses	44,637									44,637
22	Insurance - Vehicle	17,464									17,464
23	Insurance - General Liability	10,840									10,840
24	Insurance - Worker's Comp	1,009									1,009
25	Regulatory Commission Expense	3,671									3,671
26	Regulatory Commission Expense - Rate Case	-		50,000						50,000	50,000
27	Bad Debt Expense	4,766									4,766
28	Miscellaneous Expense	15,934									15,934
29	Depreciation Expense	477,551	209,446							209,446	686,997
30	Taxes Other Than Income	40,883									40,883
31	Property Taxes	94,465	(11,107)							(11,107)	83,358
32	Income Tax	-						(27,157)		(27,157)	(27,157)
33	Total Operating Expenses	\$ 1,599,900	\$ 209,446	\$ (11,107)	\$ 50,000	\$ -	\$ (3,220)	\$ -	\$ -	\$ (6,142)	\$ 1,845,067
34	Operating Income	\$ 383,870	\$ (209,446)	\$ 11,107	\$ (50,000)	\$ (6,142)	\$ 3,220	\$ -	\$ -	\$ (251,308)	\$ 132,561

**OPERATING INCOME ADJUSTMENT NO. 1
DEPRECIATION EXPENSE**

Line	Acct.		(A) Original Cost	(B) ADJMT NO. 1 Expense Reclass	(C) Adjusted Original Cost	(D) Proposed Rates	(E) Depreciation Expense
No.	No.	Description					
1	301	Organization Cost	-		-	-	-
2	302	Franchise Cost	-		-	-	-
3	303	Land and Land Rights	97,637		97,637	-	-
4	304	Structures & Improvements	315,125		315,125	3.33%	10,494
5	305	Collecting & Impounding Reservoirs	-		-	2.50%	-
6	306	Lake, River, Canal Intakes	-		-	2.50%	-
7	307	Wells & Springs	606,699		606,699	3.33%	20,203
8	308	Infiltration Galleries	-		-	6.67%	-
9	309	Raw Water Supply Mains	-		-	2.00%	-
10	310	Power Generation Equipment	-		-	5.00%	-
11	311	Pumping Equipment	2,263,801	7,273	2,271,074	12.50%	283,884
12	320	Water Treatment Equipment	-		-	-	-
13	320.1	Water Treatment Plants	-		-	3.33%	-
14	320.2	Solution Chemical Feeders	58,255	2,566	60,821	20.00%	12,164
15	330	Distribution Reservoirs & Standpipes	-		-	-	-
16	330.1	Storage Tanks	1,102,197		1,102,197	2.22%	24,469
17	330.2	Pressure Tanks	73,937		73,937	5.00%	3,697
18	331	Transmission & Distribution Mains	2,916,048		2,916,048	2.00%	58,321
19	333	Services	4,709,148	15,692	4,724,840	3.33%	157,337
20	334	Meters	923,202		923,202	8.33%	76,903
21	335	Hydrants	887,381		887,381	2.00%	17,748
22	336	Backflow Prevention Devices	-		-	6.67%	-
23	339	Other Plant & Misc Equipment	-		-	6.67%	-
24	340	Office Furniture & Equipment	4,239		4,239	6.67%	283
25	340.1	Computers & Software	28,479		28,479	20.00%	5,696
26	341	Transportation Equipment	61,635		61,635	20.00%	12,327
27	342	Stores Equipment	-		-	4.00%	-
28	343	Tools, Shop & Garage Equipment	134,506		134,506	5.00%	6,725
29	344	Laboratory Equipment	-		-	10.00%	-
30	345	Power Operated Equipment	124,899		124,899	5.00%	6,245
31	346	Communication Equipment	238,939		238,939	10.00%	23,894
32	347	Miscellaneous Equipment	-		-	10.00%	-
33	348	Other Tangible Plant	-		-	10.00%	-
34			\$ 14,546,128	\$ 25,531	\$ 14,571,659		\$ 720,389
35							
36		Contributions in Aid of Construction	\$ (1,056,046)				
37		Amortization Rate	4.9725%				\$ (52,512)
38							
39		Total Depreciation Expense					\$ 667,877
40							
41		Total Depreciation per Company					\$ 686,997
42							
43		Test Year Decrease in Depreciation and Amortization Expense					\$ (19,120)
44							
45							
46							
47							
48							
49							
50		TOTAL RECLASSIFICATION by ACCOUNT					
51							
52							
53							
54							
55							

	Acct 311	Acct 320.2	Acc 333	TOTAL
Reclass from Repairs and Maintenance RBM-12	3,371	2,566	15,692	21,629
Reclass from Contractual Services - Engineering RBM-13	3,902	-	-	3,902
	<u>\$ 7,273</u>	<u>\$ 2,566</u>	<u>\$ 15,692</u>	<u>\$ 25,531</u>

OPERATING INCOME ADJUSTMENT 2
PROPERTY TAXES

LINE NO.	Property Tax Calculation	(A) RUCO AS ADJUSTED	(B) RUCO RECOMMENDED
1	RUCO Adjusted Test Year Revenues - RBM-7	\$ 1,977,627	\$ 1,977,627
2	Multiplied by 2	2	2
3	Subtotal (Line 1 * Line 2)	\$ 3,955,255	\$ 3,955,255
4	RUCO Adjusted Test Year Revenues - 2010	1,977,627	
5	RUCO Recommended Revenue, Per Schedule RBM-7		2,543,675
6	Subtotal (Line 4 + Line 5)	\$ 5,932,882	\$ 6,498,930
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	\$ 1,977,627	\$ 2,166,310
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (L8 X L9)	\$ 3,955,255	\$ 4,332,620
11	Plus: 10% of CWIP -	-	-
12	Less: Net Book Value of Licensed Vehicles	112,709	112,709
13	Full Cash Value (L10 + L11 + L12))	\$ 3,842,546	\$ 4,219,911
14	Assessment Ratio	20.0%	20.0%
15	Assessment Value (L13 X L14)	\$ 768,509	\$ 843,982
16	Composite Property Tax Rate (per RUCO Effective Property Tax Calculation Analysis WP)	9.9552%	9.9552%
17			
18	RUCO Proposed Property Tax Expense (L15 X L16)	\$ 76,507	
19	Company Proposed Property Tax	83,358	
20			
21	RUCO Test Year Adjustment (L16 - L17)	\$ (6,851)	
22	Property Tax - RUCO Recommended Revenue (L15 X L16)		\$ 84,020
23	RUCO Test Year Adjusted Property Tax Expense (L18)		76,507
24	Increase/(Decrease) to Property Tax Expense		\$ 7,513
25			
26	Increase/(Decrease) to Property Tax Expense		\$ 7,513
27	Increase in Revenue Requirement (L5 - L4)		566,047
28	Increase /(Decrease) to Property Tax per Dollar Increase in Revenue (L26 / L27)		1.3274%

**OPERATING EXPENSE ADJUSTMENT NO. 3
REPAIRS AND MAINTENANCE EXPENSE ADJUSTMENT**

Line No.		Amount
1	<u>Reclass from Repairs and Maintenance Expense (see below)</u>	
2	Capitalize Expensed Items to NARUC Plant Accounts:	
3	311 - Pumping Equipment	\$ 3,371
4	333 - Services	2,566
5	320.2 - Solution Chemicals Feeders	<u>15,692</u>
6		
7	<u>Reclass from Repairs and Maintenance Expense (see below)</u>	<u>\$ 21,629</u>
8		
9	Calculation of Accumulated Depreciation	
10	Total Reclass to UPIS	\$ 21,629
11	Test Year Depreciation Rate	3%
12	Calculated Depreciation Expense	<u>\$ 649</u>
13		
14	One-Half Year Convention to Test Year Accumulated Depreciation	<u>\$ 324</u>
15		
16		
17		
18		
19		
20	<u>SUMMARY</u>	
21		
22		<u>Account Number</u>
23		<u>311</u>
24		<u>320.2</u>
		<u>333</u>
		<u>Total</u>
22	Reclass from Repairs and Maintenance Expense	\$ 3,371 \$ 2,566 \$ 15,692 \$ 21,629
23		\$ -
24	TOTAL RECLASS FROM EXPENSE TO UPIS	<u>\$ 3,371 \$ 2,566 \$ 15,692 \$ 21,629</u>

**OPERATING EXPENSE ADJUSTMENT NO. 4
CONTRACTURAL SERVICES - ENGINEERING**

Line No.		Amount
1	<u>Reclass from Contractual Services - Engineering (see below)</u>	
2	Capitalize Expensed Items to NARUC Plant Accounts:	
3	311 - Pumping Equipment	\$ 3,902
4		
5	Reclass from Contractual Services Expense	\$ 3,902
6		
7	Calculation of Accumulated Depreciation	
8	Total Reclass to UPIS	\$ 3,902
9	Test Year Depreciation Rate	3%
10	Calculated Depreciation Expense	\$ 117
11		
12	One-Half Year Convention to Test Year Accumulated Depreciation	\$ 59
13		
14		
15	<u>SUMMARY</u>	<u>Account Number</u>
16		<u>311</u>
17	Reclass from Contractual Services Engineering Expense	\$ 3,902
18		
19	TOTAL RECLASS FROM EXPENSE TO UPIS	\$ 3,902

OPERATING INCOME ADJUSTMENT NO. 5
RATE CASE EXPENSE ADJUSTMENT

Line No.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense - Water Division	\$ 200,000	\$ (50,000)	\$ 150,000
2				
3	Amortization Period - 3 years			<u>4</u>
4				
5	RUCO Rate Case Expense Recommended Per Year			<u>\$ 37,500</u>
6				
7				
8				
9				
10	Rate Case Expense as filed By Company Per Year		\$ 50,000	
11				
12	Rate Case Expense as Recommended by RUCO Per Year		<u>\$ 37,500</u>	
13				
14	Rate Case Expense Adjustment		<u>\$ 12,500</u>	
15				
16				
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35				
36				
37				

OPERATING INCOME ADJUSTMENT NO. 6
MISCELLANEOUS EXPENSE - BANK ANALYSIS FEES

<u>Line</u> <u>No.</u>	<u>Description</u>	<u>Date</u>	<u>Amount</u>
1			
2	JPMorgan Chase Bank	Jan. 2010	\$ 1,067
3	JPMorgan Chase Bank	Feb. 2010	913
4	JPMorgan Chase Bank	Mar. 2010	1,097
5	JPMorgan Chase Bank	Apr. 2010	1,136
6	JPMorgan Chase Bank	May 2010	1,069
7	JPMorgan Chase Bank	Jun. 2010	1,066
8	JPMorgan Chase Bank	Jul. 2010	1,015
9	JPMorgan Chase Bank	Aug. 2010	1,073
10	JPMorgan Chase Bank	Sep. 2010	1,080
11	JPMorgan Chase Bank	Oct. 2010	1,068
12	JPMorgan Chase Bank	Nov. 2010	1,007
13	JPMorgan Chase Bank	Dec. 2010	1,116
14			
15	Total Bank Charges Recorded 100% to Water Division (Per Staff DR 1.38)		\$ 12,707
16			
17	RUCO Miscellaneous Expense Adjustment to Water Division (Line 15 X -50%)		\$ (6,354)
18			
19	RUCO Miscellaneous Expense Adjustment to Sewer Division (Line 15 X 50%)		\$ 6,354

Per Company Data Response Bank Fees to be charged 50% to Water and 50% to Waste Water. All were recorded to Water Division.

**OPERATING INCOME ADJUSTMENT NO. 7
SHAREHOLDER SALARIES**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Salaries and Wages Expenses - Officer and Director	\$ 90,294	\$ 83,209	\$ 7,085
2	RUCO Adjustment			\$ (83,209)

RUCO OFFICER SALARY ADJUSTMENT CALCULATION:

3	Company as Filed Salary and Wage Expense - Officer and Director	\$ 90,294
4	Number of Hours Worked for Water Division per Company Response to Staff DR 1.29	56.68
5	Hourly Chargeable Rate to Water Division per Company Response to Staff 1.29 (L3 / L 4)	\$ 1,593
6	RUCO Recommended Hourly Pay Rate	\$ 125
7	RUCO Recommended Salary and Wage Expense (L4 X L6)	\$ 7,085

Pima Utility Company - Water Division
Docket No. W-02199A-11-0329, et al.
Test Year Ended December 31, 2010

Water Division
Final Schedule RBM-17
Page 1

**OPERATING INCOME ADJUSTMENT NO. 8, 9,10
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OPERATING INCOME ADJUSTMENT NO. 11
INCOME TAX EXPENSE

Line No.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Income Tax Expense	\$ (27,157)	\$ 27,157	\$ -
2				
3				
4				
5	RUCO Recommended Income Tax Expense			\$ -
6				
7				
8				
9				
10				
11				
12				
13				
14				
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28				
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30				
31				
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34				
35				
36				
37				

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) CAPITAL RATIO	(C) COST RATE	(D) WEIGHTED COST RATE
1	Long-Term Debt	\$ 6,125,000	22.53%	7.696%	1.73%
2					
3	Common Equity	21,063,072	77.47%	9.400%	7.28%
4					
5	Total Capitalization	<u>\$ 27,188,072</u>	<u>100.00%</u>		
6					
7					
8	WEIGHTED AVERAGE COST OF CAPITAL				9.01%

References:

Columns (A) Thru (D): WAR Testimony

PIMA WATER DIVISION

RATE DESIGN

TABLE OF CONTENTS TO RBM RATE DESIGN SCHEDULES

SCH NO.	TITLE
<u>RESIDENTIAL RATE DESIGN</u>	
RBM RD - 1	REVENUE COMPARISON - RESIDENTIAL
RBM RD - 2	RECOMMENDED RATES
RBM RD - 3	MONTHLY MINIMUM CHARGES
RBM RD - 4	BILLING ANALYSIS - PRESENT RATES
RBM RD - 5	BILLING ANALYSIS -RUCO RECOMMENDED
RBM RD - 6	RUCO RECOMMENDED CHANGES IN DOLLARS
RBM RD - 7	REVENUE BY METER SIZE
<u>COMMERCIAL RATE DESIGN</u>	
RBM RD - 1	REVENUE COMPARISON - COMMERCIAL
RBM RD - 2	RECOMMENDED RATES
RBM RD - 3	MONTHLY MINIMUM CHARGES
RBM RD - 4	BILLING ANALYSIS - PRESENT RATES
RBM RD - 5	BILLING ANALYSIS -RUCO RECOMMENDED
RBM RD - 6	RUCO RECOMMENDED CHANGES IN DOLLARS
RBM RD - 7	REVENUE BY METER SIZE
<u>IRRIGATION RATE DESIGN</u>	
RBM RD - 1	REVENUE COMPARISON - IRRIGATION
RBM RD - 2	RECOMMENDED RATES
RBM RD - 3	MONTHLY MINIMUM CHARGES
RBM RD - 4	BILLING ANALYSIS
RBM RD - 5	REVENUE BY METER SIZE

Pima Utilities - Water Division
Test Year Ending December 31, 2010
REVENUE COMPARISON - Residential

DOCKET NO. W-02199A-11-0329 et al.
Schedule RBM RD-1

LINE NO.	METER SIZE	PERSENT RATES MONTHLY MINIMUM	PERSENT RATES COMMODITY CHARGE	PERSENT RATES TOTAL REVENUE	COMPANY PROPOSED RATES MONTHLY MINIMUM	COMPANY PROPOSED RATES COMMODITY CHARGE	COMPANY PROPOSED RATES TOTAL REVENUE	RUCO RECOMMENDED RATES MONTHLY MINIMUM	RUCO RECOMMENDED RATES COMMODITY CHARGE	RUCO RECOMMENDED RATES TOTAL REVENUE
1	5/8 X 3/4 - INCH	\$ 666,421	\$ 608,027	\$ 1,274,448	\$ 860,840	\$ 930,731	\$ 1,791,571	\$ 721,268	\$ 858,141	\$ 1,579,409
2	3/4 - INCH	-	-	-	-	-	-	-	-	-
3	1 - INCH	42,816	74,270	117,086	54,651	115,181	169,832	46,197	104,571	150,768
4	1 1/2 - INCH	-	-	-	-	-	-	-	-	-
5	2 - INCH	-	-	-	-	-	-	-	-	-
6	3 - INCH	-	-	-	-	-	-	-	-	-
7	4 - INCH	-	-	-	-	-	-	-	-	-
8	6 - INCH	-	-	-	-	-	-	-	-	-
9	8 - INCH	-	-	-	-	-	-	-	-	-
10	10 - INCH	-	-	-	-	-	-	-	-	-
11	TOTALS	\$ 709,237	\$ 682,296	\$ 1,391,533	\$ 915,492	\$ 1,045,912	\$ 1,961,404	\$ 767,465	\$ 962,713	\$ 1,730,177
12	PERCENTAGE	50.97%	49.03%	100.00%	46.88%	53.32%	100.00%	44.36%	55.64%	100.00%

Pimi Utilities - Water Division
TEST YEAR ENDED December 31, 2010
RECOMMENDED RATES - Residential

DOCKET NO. W-0299A-0329 et al.
Summary Schedule RBM RD - 2

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
1	RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:			
2				
3	(RESIDENTIAL, COMMERCIAL AND MISC. CUSTOMERS)			
4	5/8 X 3/4 - INCH	\$ 5.70	\$ 7.36	\$ 6.17
5	3/4 - INCH	\$ 5.70	\$ 7.36	\$ 6.17
6	1 - INCH	\$ 16.00	\$ 20.67	\$ 17.47
7	1 1/2 - INCH	\$ 21.00	\$ 27.13	\$ 22.92
8	2 - INCH	\$ 26.00	\$ 33.59	\$ 28.40
9	3 - INCH	\$ 40.00	\$ 51.68	\$ 43.75
10	4 - INCH	\$ 52.00	\$ 67.18	\$ 56.90
11	6 - INCH	\$ 100.00	\$ 129.20	\$ 109.51
12	8 - INCH	\$ -	\$ -	\$ -
13	10 - INCH	\$ -	\$ -	\$ -
14				
15	GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:			
16				
17	RESIDENTIAL, COMMERCIAL AND MISC. CUSTOMERS	1,000	1,000	1,000
18				
19	RECOMMENDED COMMODITY RATES BY METER SIZE			
20				
21	5/8 X 3/4 - INCH			
22	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 4,000 GALLONS:	\$ 0.92	\$ 0.96	\$ 0.91
23	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 4,001 TO 10,000 GALLONS:	\$ 1.08	\$ 1.36	\$ 1.25
24	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 10,000 GALLONS:	\$ -	\$ 1.86	\$ 1.67
25				
26	3/4 - INCH			
27	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 4,000 GALLONS:	\$ 0.92	\$ 0.96	\$ 0.89
28	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 10,000 GALLONS:	\$ 1.08	\$ 1.36	\$ 1.23
29	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 10,000 GALLONS:	\$ -	\$ 1.86	\$ 1.66
30				
31	1 - INCH			
32	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 25,000 GALLONS:	\$ 0.92	\$ 1.36	\$ 1.25
33	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 25,000 GALLONS:	\$ 1.08	\$ 1.86	\$ 1.67
34				
35				
36	1 1/2 - INCH			
37	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 50,000 GALLONS:	\$ 0.92	\$ 1.36	\$ 1.25
38	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 50,000 GALLONS:	\$ 1.08	\$ 1.86	\$ 1.67
39				
40	2 - INCH			
41	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 80,000 GALLONS:	\$ 0.92	\$ 1.36	\$ 1.25
42	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 80,000 GALLONS:	\$ 1.08	\$ 1.86	\$ 1.67
43				
44	3 - INCH			
45	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 180,000 GALLONS:	\$ 0.92	\$ 1.36	\$ 1.25
46	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 180,000 GALLONS:	\$ 1.08	\$ 1.86	\$ 1.67
47				
48	4 - INCH			
49	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 250,000 GALLONS:	\$ 0.92	\$ 1.36	\$ 1.25
	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 250,000 GALLONS:	\$ 1.08	\$ 1.86	\$ 1.67
50				
51	6 - INCH			
52	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 500,000 GALLONS:	\$ 0.92	\$ 1.36	\$ 1.25
	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 50,000 GALLONS:	\$ 1.08	\$ 1.85	\$ 1.66

Pimi Utilities - Water Division
TEST YEAR ENDED December 31, 2010
MONTHLY MINIMUM CHARGES - Residential

DOCKET NO. W-0299A-0329 et al.
Summary Schedule RBM RD - 3

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO RECOMMENDED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	5/8 X 3/4 - INCH	\$ 5.70	\$ 7.36	\$ 1.66	29.12%	\$ 6.17	\$ 0.47	8.19%
2	3/4 - INCH	5.70	7.36	1.66	29.12%	6.17	0.47	8.19%
3	1 - INCH	16.00	20.67	4.67	29.19%	17.47	1.47	9.20%
4	1 1/2 - INCH	21.00	27.13	6.13	29.19%	22.92	1.92	9.15%
5	2 - INCH	26.00	33.59	7.59	29.19%	28.40	2.40	9.24%
6	3 - INCH	40.00	51.68	11.68	29.20%	43.75	3.75	9.37%
7	4 - INCH	52.00	67.18	15.18	29.19%	56.90	4.90	9.42%
8	6 - INCH	100.00	129.20	29.20	29.20%	109.51	9.51	9.51%
9	8 - INCH	-	-	-	-	-	-	-
10	10 - INCH	-	-	-	-	-	-	-

Piml Utilities - Water Division
TEST YEAR ENDED December 31, 2010
BILLING ANALYSIS

DOCKET NO. W-0299A-0329 et al.
Summary Schedule RBM RD - 4

PRESENT RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH
1	0	\$5.70	5.70	\$16.00	21.00	26.00	40.00	52.00	100.00
2	1,000	5.70	5.70	16.00	22.08	27.08	41.08	53.08	101.08
3	2,000	6.62	6.62	16.92	23.16	28.16	42.16	54.16	102.16
4	3,000	7.54	7.54	17.84	24.24	29.24	43.24	55.24	103.24
5	4,000	8.46	8.46	18.76	25.32	30.32	44.32	56.32	104.32
6	5,000	9.38	9.38	19.68	26.40	31.40	45.40	57.40	105.40
7	6,000	10.30	10.30	20.60	27.48	32.48	46.48	58.48	106.48
8	7,000	11.22	11.22	21.52	28.56	33.56	47.56	59.56	107.56
9	8,000	12.14	12.14	22.44	29.64	34.64	48.64	60.64	108.64
10	9,000	13.06	13.06	23.36	30.72	35.72	49.72	61.72	109.72
11	10,000	13.98	13.98	24.28	31.80	36.80	50.80	62.80	110.80
12	15,000	19.38	15.06	29.68	37.20	42.20	56.20	68.20	116.20
13	20,000	24.78	16.14	35.08	42.60	47.60	61.60	73.60	121.60
14	25,000	30.18	17.22	40.48	48.00	53.00	67.00	79.00	127.00
15	50,000	57.18	18.30	67.48	75.00	80.00	94.00	106.00	154.00
16	75,000	84.18	19.38	94.48	102.00	107.00	121.00	133.00	181.00
17	100,000	111.18	20.46	121.48	129.00	134.00	148.00	160.00	208.00
18	125,000	138.18	21.54	148.48	156.00	161.00	175.00	187.00	235.00
19	150,000	165.18	22.62	175.48	183.00	188.00	202.00	214.00	262.00
20	175,000	192.18	23.70	202.48	210.00	215.00	229.00	241.00	289.00
21	200,000	219.18	24.78	229.48	237.00	242.00	256.00	268.00	316.00
22	250,000	273.18	25.86	283.48	291.00	296.00	310.00	322.00	370.00
23	500,000	543.18	26.94	553.48	561.00	566.00	580.00	592.00	640.00
24	1,000,000	1,083.18	28.02	1,093.48	1,101.00	1,106.00	1,120.00	1,132.00	1,180.00
25	2,000,000	2,163.18	29.10	2,173.48	2,181.00	2,186.00	2,200.00	2,212.00	2,260.00
26	3,000,000	3,243.18	30.18	3,253.48	3,261.00	3,266.00	3,280.00	3,292.00	3,340.00
27	4,000,000	4,323.18	31.26	4,333.48	4,341.00	4,346.00	4,360.00	4,372.00	4,420.00
28	5,000,000	5,403.18	32.34	5,413.48	5,421.00	5,426.00	5,440.00	5,452.00	5,500.00
29									
30									
31	AVG. NO. OF CUST:	9,747	-	220	-	-	-	-	-
32									
33	AVG. USE (GAL.):	6,395	-	28,303	-	-	-	-	-
34	MONTHLY BILL:	\$10.66	-	\$44.05	-	-	-	-	-
35									
36	MEDIAN USE (GAL.):	4,500	-	22,500	-	-	-	-	-
37	MONTHLY BILL:	\$8.92	-	\$37.78	-	-	-	-	-

Pimi Utilities - Water Division
TEST YEAR ENDED December 31, 2010
BILLING ANALYSIS

DOCKET NO. W-0299A-0329 et al.
Summary Schedule RBM RD - 5

RUCO RECOMMENDED RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$6.17	\$6.17	\$17.47	\$22.92	\$28.40	\$43.75	\$56.90	\$109.51	\$0.00	\$0.00
2	1,000	7.07	7.07	18.72	24.17	29.65	44.99	58.14	110.75	0.00	0.00
3	2,000	7.98	7.98	19.96	25.41	30.89	46.24	59.39	112.00	0.00	0.00
4	3,000	8.88	8.88	21.21	26.66	32.14	47.48	60.63	113.24	0.00	0.00
5	4,000	9.79	9.79	22.45	27.90	33.38	48.73	61.88	114.49	0.00	0.00
6	5,000	11.04	11.04	23.70	29.57	35.05	50.40	63.55	116.15	0.00	0.00
7	6,000	12.28	12.28	24.94	31.24	36.72	52.07	65.22	117.81	0.00	0.00
8	7,000	13.53	13.53	26.19	32.91	38.39	53.74	66.89	119.47	0.00	0.00
9	8,000	14.77	14.77	27.44	34.58	40.06	55.41	68.56	121.13	0.00	0.00
10	9,000	16.02	16.02	28.68	36.25	41.73	57.08	70.23	122.79	0.00	0.00
11	10,000	17.26	17.26	29.93	37.92	43.40	58.75	71.90	124.46	0.00	0.00
12	15,000	25.61	25.61	36.15	46.27	51.75	67.09	80.24	132.76	0.00	0.00
13	20,000	33.96	33.96	42.38	54.62	60.10	75.44	88.59	141.07	0.00	0.00
14	25,000	42.31	42.31	48.61	62.96	68.44	83.79	96.94	149.37	0.00	0.00
15	50,000	84.05	84.05	90.35	104.70	110.18	125.53	138.68	190.90	0.00	0.00
16	75,000	125.78	125.78	132.08	146.44	151.92	167.27	180.42	232.42	0.00	0.00
17	100,000	167.52	167.52	173.82	188.18	193.66	209.01	222.15	273.95	0.00	0.00
18	125,000	209.26	209.26	215.56	229.92	235.40	250.74	263.89	315.48	0.00	0.00
19	150,000	251.00	251.00	257.30	271.66	277.14	292.48	305.63	357.00	0.00	0.00
20	175,000	292.74	292.74	299.04	313.40	318.88	334.22	347.37	398.53	0.00	0.00
21	200,000	334.48	334.48	340.78	355.14	360.62	375.96	389.11	440.06	0.00	0.00
22	250,000	417.96	417.96	424.26	438.61	444.09	459.44	472.59	523.11	0.00	0.00
23	500,000	835.34	835.34	841.64	856.00	861.48	876.83	889.97	938.38	0.00	0.00
24	1,000,000	1,670.12	1,670.12	1,676.42	1,690.78	1,696.26	1,711.60	1,724.75	1,768.91	0.00	0.00
25	2,000,000	3,339.67	3,339.67	3,345.97	3,360.32	3,365.80	3,381.15	3,394.30	3,429.98	0.00	0.00
26	3,000,000	5,009.22	5,009.22	5,015.52	5,029.87	5,035.35	5,050.70	5,063.85	5,091.04	0.00	0.00
27	4,000,000	6,678.77	6,678.77	6,685.07	6,699.42	6,704.90	6,720.25	6,733.40	6,752.11	0.00	0.00
28	5,000,000	8,348.31	8,348.31	8,354.62	8,368.97	8,374.45	8,389.80	8,402.95	8,413.18	0.00	0.00
29											
30											
31	AVG. NO. OF CUST:	9,747	-	220	-	-	-	-	-	-	-
32											
33	AVG. USE (GAL.):	6,395	-	28,303	-	-	-	-	-	-	-
34	MONTHLY BILL:	\$12.77	-	\$54.12	-	-	-	-	-	-	-
35											
36	MEDIAN USE (GAL.):	4,500	-	22,500	-	-	-	-	-	-	-
37	MONTHLY BILL:	\$10.41	-	\$45.49	-	-	-	-	-	-	-

Pima Utilities - Water Division
TEST YEAR ENDED December 31, 2010
BILLING ANALYSIS

DOCKET NO. W-0299A-0329 et al.
Summary Schedule RBM RD - 6

RUCO RECOMMENDED CHANGES EXPRESSED IN DOLLARS

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH
1	0	\$0.47	\$0.47	\$1.47	\$1.92	\$2.40	\$3.75	\$4.90	\$9.51
2	1,000	1.37	1.37	2.72	2.09	2.57	3.91	5.06	9.67
3	2,000	1.36	1.36	3.04	2.25	2.73	4.08	5.23	9.84
4	3,000	1.34	1.34	3.37	2.42	2.90	4.24	5.39	10.00
5	4,000	1.33	1.33	3.69	2.58	3.06	4.41	5.56	10.17
6	5,000	1.66	1.66	4.02	3.17	3.65	5.00	6.15	10.75
7	6,000	1.98	1.98	4.34	3.76	4.24	5.59	6.74	11.33
8	7,000	2.31	2.31	4.67	4.35	4.83	6.18	7.33	11.91
9	8,000	2.63	2.63	5.00	4.94	5.42	6.77	7.92	12.49
10	9,000	2.96	2.96	5.32	5.53	6.01	7.36	8.51	13.07
11	10,000	3.28	3.28	5.65	6.12	6.60	7.95	9.10	13.66
12	15,000	6.23	6.47	9.07	9.55	10.89	10.89	12.04	16.56
13	20,000	9.18	17.82	7.30	12.02	12.50	13.84	14.99	19.47
14	25,000	12.13	25.09	8.13	14.96	15.44	16.79	17.94	22.37
15	50,000	26.87	65.75	22.87	29.70	30.18	31.53	32.68	36.90
16	75,000	41.60	106.40	37.60	44.44	44.92	46.27	47.42	51.42
17	100,000	56.34	147.06	52.34	59.18	59.66	61.01	62.15	65.95
18	125,000	71.08	187.72	67.08	73.92	74.40	75.74	76.89	80.48
19	150,000	85.82	228.38	81.82	88.66	89.14	90.48	91.63	95.00
20	175,000	100.56	269.04	96.56	103.40	103.88	105.22	106.37	109.53
21	200,000	115.30	309.70	111.30	118.14	118.62	119.96	121.11	124.06
22	250,000	144.78	392.10	140.78	147.61	148.09	149.44	150.59	153.11
23	500,000	292.16	808.40	288.16	295.00	295.48	296.83	297.97	298.38
24	1,000,000	586.94	1,642.10	582.94	589.78	590.26	591.60	592.75	588.91
25	2,000,000	1,176.49	3,310.57	1,172.49	1,179.32	1,179.80	1,181.15	1,182.30	1,169.98
26	3,000,000	1,766.04	4,979.04	1,762.04	1,768.87	1,769.35	1,770.70	1,771.85	1,751.04
27	4,000,000	2,355.59	6,647.51	2,351.59	2,358.42	2,358.90	2,360.25	2,361.40	2,332.11
28	5,000,000	2,945.13	8,315.97	2,941.14	2,947.97	2,948.45	2,949.80	2,950.95	2,913.18
29									
30									
31	AVG. NO. OF CUST:	9,747	-	220	-	-	-	-	-
32									
33	AVG. USE (GAL.):	6,395	-	28,303	-	-	-	-	-
34	MONTHLY BILL:	\$2.11	-	\$10.07	-	-	-	-	-
35									
36	MEDIAN USE (GAL.):	4,500	-	22,500	-	-	-	-	-
37	MONTHLY BILL:	\$1.49	-	\$7.71	-	-	-	-	-

Pima Utilities - Water Division
TEST YEAR ENDED December 31, 2010
REVENUE SUMMARY BY METER SIZE AND CUSTOMER CLASS

DOCKET NO. W-0299A-0329 et al.
Summary Schedule RBM RD - 7

		<u>Residential</u>		
LINE NO.	DESCRIPTION	(A) RUCO PROPOSED MINIMUM REVENUE	(B) RUCO PROPOSED COMMODITY REVENUE	(C) RUCO PROPOSED TOTAL REVENUE
1	5/8 X 3/4 - INCH	\$721,268	\$858,141	\$ 1,579,409
2	3/4 - INCH	-	-	-
3	1 - INCH	46,197	104,571	150,768
4	1 1/2 - INCH	-	-	-
5	2 - INCH	-	-	-
6	3 - INCH	-	-	-
7	4 - INCH	-	-	-
8	6 - INCH	-	-	-
9	8 - INCH	-	-	-
10	10 - INCH	-	-	-
11	TOTALS	<u>\$ 767,465</u>	<u>\$ 962,713</u>	<u>\$ 1,730,177</u>
12	PERCENTAGE OF TOTAL REVENUE	44.36%	55.64%	100.00%

PIMA Utility Company - Water Division Commercial Rate Design
 TEST YEAR ENDED December 31, 2010
 REVENUE COMPARISON - Commercial

DOCKET NO. W-021998A-11-0329 et al.
 Summary Schedule RBM RD - 1

LINE NO.	METER SIZE	PERSENT RATES MONTHLY MINIMUM	PERSENT RATES COMMODITY CHARGE	PERSENT RATES TOTAL REVENUE	COMPANY PROPOSED RATES MONTHLY MINIMUM	COMPANY PROPOSED RATES COMMODITY CHARGE	COMPANY PROPOSED RATES TOTAL REVENUE	RUCO RECOMMENDED RATES MONTHLY MINIMUM	RUCO RECOMMENDED RATES COMMODITY CHARGE	RUCO RECOMMENDED RATES TOTAL REVENUE
1	5/8 X 3/4 - INCH	\$ 4,304	\$ 21,701	\$ 26,004	\$ 5,557	\$ 36,398	\$ 41,955	\$ 4,710	\$ 32,332	\$ 37,042
2	3/4 - INCH	211	1,589	1,800	353	1,948	2,301	299	1,759	2,058
3	1 - INCH	8,736	20,516	29,252	11,286	32,762	44,048	9,565	29,161	38,726
4	1 1/2 - INCH	2,814	7,886	10,700	3,635	11,947	15,582	3,081	10,659	13,740
5	2 - INCH	30,134	179,125	209,259	38,931	282,113	321,043	32,996	251,070	284,066
6	3 - INCH	-	-	-	-	-	-	-	-	-
7	4 - INCH	-	-	-	-	-	-	-	-	-
8	6 - INCH	-	-	-	-	-	-	-	-	-
9	8 - INCH	-	-	-	-	-	-	-	-	-
10	10 - INCH	-	-	-	-	-	-	-	-	-
11	TOTALS	\$ 46,198	\$ 230,817	\$ 277,015	\$ 59,762	\$ 365,167	\$ 424,929	\$ 50,652	\$ 324,981	\$ 375,632
12	PERCENTAGE	16.68%	83.32%	100.00%	14.06%	85.94%	100.00%	13.48%	86.52%	100.00%

PIMA Utility Company - Water Division Commercial Rate Design
TEST YEAR ENDED December 31, 2010
RECOMMENDED RATES - Commercial

DOCKET NO. W-021998A-11-0329 et al.
Summary Schedule RBM RD - 2

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
1	RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:			
2				
3				
4	5/8 X 3/4 - INCH	\$5.70	\$7.36	\$6.24
5	3/4 - INCH	5.70	7.36	6.24
6	1 - INCH	16.00	20.67	17.52
7	1 1/2 - INCH	21.00	27.13	22.99
8	2 - INCH	26.00	33.59	28.47
9	3 - INCH	40.00	51.68	43.80
10	4 - INCH	52.00	67.18	56.94
11	6 - INCH	100.00	129.20	109.50
12	8 - INCH	-	-	-
13	10 - INCH	-	-	-
14				
15	GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:			
16				
17	RESIDENTIAL, COMMERCIAL AND MISC. CUSTOMERS	1,000	1,000	1,000
18				
19	RECOMMENDED COMMODITY RATES BY METER SIZE			
20				
21	5/8 X 3/4 - INCH			
22	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 10,000 GALLONS:	\$ 0.92	\$ 1.36	\$ 1.22
23	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 10,000 GALLONS:	\$ 1.08	\$ 1.86	\$ 1.65
24				
25	3/4 - INCH			
26	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 10,000 GALLONS:	\$ 0.92	\$ 0.96	\$ 0.89
27	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 10,000 GALLONS:	\$ 1.08	\$ 1.36	\$ 1.22
28				
29				
30	1 - INCH			
31	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 25,000 GALLONS:	\$ 0.92	\$ 1.36	\$ 1.22
32	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 25,000 GALLONS:	\$ 1.08	\$ 1.86	\$ 1.65
33				
34	1 1/2 - INCH			
35	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 50,000 GALLONS:	\$ 0.92	\$ 1.36	\$ 1.22
36	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 50,000 GALLONS:	\$ 1.08	\$ 1.86	\$ 1.65
37				
38	2 - INCH			
39	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 80,000 GALLONS:	\$ 0.92	\$ 1.36	\$ 1.22
40	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 80,000 GALLONS:	\$ 1.08	\$ 1.86	\$ 1.65
41				
42	3 - INCH			
43	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 160,000 GALLONS:	\$ 0.92	\$ 1.36	\$ 1.22
44	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 160,000 GALLONS:	\$ 1.08	\$ 1.86	\$ 1.65
45				
46	4 - INCH			
47	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 250,000 GALLONS:	\$ 0.92	\$ 1.36	\$ 1.22
48	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 250,000 GALLONS:	\$ 1.08	\$ 1.86	\$ 1.65
49				
50	6 - INCH			
51	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 500,000 GALLONS:	\$ 0.92	\$ 1.36	\$ 1.22
52	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 50,000 GALLONS:	\$ 1.08	\$ 1.86	\$ 1.65

PIMA Utility Company - Water Division Commercial Rate Design
 TEST YEAR ENDED December 31, 2010
 MONTHLY MINIMUM CHARGES - Commercial

DOCKET NO. W-0299A-0329 et al.
 Schedule RBM RD - 3

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO RECOMMENDED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	5/8 X 3/4 - INCH	\$ 5.70	\$ 7.36	\$ 1.66	29.12%	\$ 6.24	\$ 0.54	9.44%
2	3/4 - INCH	5.70	7.36	1.66	29.12%	6.24	0.54	9.44%
3	1 - INCH	16.00	20.67	4.67	29.19%	17.52	1.52	9.49%
4	1 1/2 - INCH	21.00	27.13	6.13	29.19%	22.99	1.99	9.50%
5	2 - INCH	26.00	33.59	7.59	29.19%	28.47	2.47	9.50%
6	3 - INCH	40.00	51.68	11.68	29.20%	43.80	3.80	9.50%
7	4 - INCH	52.00	67.18	15.18	29.19%	56.94	4.94	9.50%
8	6 - INCH	100.00	129.20	29.20	29.20%	109.50	9.50	9.50%
9	8 - INCH	-	-	-	-	-	-	-
10	10 - INCH	-	-	-	-	-	-	-

PIMA Utility Company - Water Division Commercial Rate Design
TEST YEAR ENDED December 31, 2010
BILLING ANALYSIS

DOCKET NO. W0299A-0329 et al.
Summary Schedule RBM RD - 4

PRESENT RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH
1	0	\$5.70	\$5.70	\$16.00	\$21.00	\$26.00	\$40.00	\$52.00	\$100.00
2	1,000	6.62	6.62	16.92	21.92	26.92	40.92	52.92	100.92
3	2,000	7.54	7.54	17.84	22.84	27.84	41.84	53.84	101.84
4	3,000	8.46	8.46	18.76	23.76	28.76	42.76	54.76	102.76
5	4,000	9.38	9.38	19.68	24.68	29.68	43.68	55.68	103.68
6	5,000	10.30	10.30	20.60	25.60	30.60	44.60	56.60	104.60
7	6,000	11.22	11.22	21.52	26.52	31.52	45.52	57.52	105.52
8	7,000	12.14	12.14	22.44	27.44	32.44	46.44	58.44	106.44
9	8,000	13.06	13.06	23.36	28.36	33.36	47.36	59.36	107.36
10	9,000	13.98	13.98	24.28	29.28	34.28	48.28	60.28	108.28
11	10,000	14.90	14.90	25.20	30.20	35.20	49.20	61.20	109.20
12	15,000	20.30	20.30	30.60	35.60	40.60	54.60	66.60	114.60
13	20,000	25.70	25.70	36.00	41.00	46.00	60.00	72.00	120.00
14	25,000	31.10	31.10	41.40	46.40	51.40	65.40	77.40	125.40
15	50,000	58.10	58.10	68.40	73.40	78.40	92.40	104.40	152.40
16	75,000	85.10	85.10	95.40	100.40	105.40	119.40	131.40	179.40
17	100,000	112.10	112.10	122.40	127.40	132.40	146.40	158.40	206.40
18	125,000	139.10	139.10	149.40	154.40	159.40	173.40	185.40	233.40
19	150,000	166.10	166.10	176.40	181.40	186.40	200.40	212.40	260.40
20	175,000	193.10	193.10	203.40	208.40	213.40	227.40	239.40	287.40
21	200,000	220.10	220.10	230.40	235.40	240.40	254.40	266.40	314.40
22	250,000	274.10	274.10	284.40	289.40	294.40	308.40	320.40	368.40
23	500,000	544.10	544.10	554.40	559.40	564.40	578.40	590.40	638.40
24	1,000,000	1,084.10	1,084.10	1,094.40	1,099.40	1,104.40	1,118.40	1,130.40	1,178.40
25	2,000,000	2,164.10	2,164.10	2,174.40	2,179.40	2,184.40	2,198.40	2,210.40	2,258.40
26	3,000,000	3,244.10	3,244.10	3,254.40	3,259.40	3,264.40	3,278.40	3,290.40	3,338.40
27	4,000,000	4,324.10	4,324.10	4,334.40	4,339.40	4,344.40	4,358.40	4,370.40	4,418.40
28	5,000,000	5,404.10	5,404.10	5,414.40	5,419.40	5,424.40	5,438.40	5,450.40	5,498.40
29									
30									
31	AVG. NO. OF CUST:	63	4	46	11	97	-	-	-
32									
33	AVG. USE (GAL.):	27,467	31,483	35,697	55,687	144,375	-	-	-
34	MONTHLY BILL:	\$33.76	\$38.10	\$52.95	\$79.54	\$180.32	-	-	-
35									
36	MEDIAN USE (GAL.):	6,978	4,444	10,647	30,500	70,645	-	-	-
37	MONTHLY BILL:	\$12.12	\$9.79	\$25.90	\$52.34	\$100.70	-	-	-

PIMA Utility Company - Water Division Commercial Rate Design
 TEST YEAR ENDED December 31, 2010
 BILLING ANALYSIS - Commercial

DOCKET NO. W-0299A-0329 et al.
 Summary Schedule RBM RD - 5

RUCO RECOMMENDED RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH
1	0	\$6.24	\$6.24	\$17.52	\$22.99	\$28.47	\$43.80	\$56.94	\$109.50
2	1,000	7.47	7.13	18.75	24.23	29.70	45.03	58.17	110.74
3	2,000	8.70	8.02	19.98	25.46	30.93	46.27	59.40	111.97
4	3,000	9.93	8.92	21.22	26.69	32.17	47.50	60.64	113.20
5	4,000	11.17	9.81	22.45	27.92	33.40	48.73	61.87	114.43
6	5,000	12.40	10.71	23.68	29.16	34.63	49.96	63.10	115.67
7	6,000	13.63	11.60	24.91	30.39	35.86	51.20	64.33	116.90
8	7,000	14.87	12.49	26.15	31.62	37.10	52.43	65.57	118.13
9	8,000	16.10	13.39	27.38	32.85	38.33	53.66	66.80	119.36
10	9,000	17.33	14.28	28.61	34.09	39.56	54.89	68.03	120.60
11	10,000	18.56	15.17	29.84	35.32	40.79	56.13	69.26	121.83
12	15,000	26.85	21.34	36.01	41.48	46.96	62.29	75.43	127.99
13	20,000	35.13	27.50	42.17	47.65	53.12	68.45	81.59	134.16
14	25,000	43.41	33.66	48.33	53.81	59.28	74.62	87.75	140.32
15	50,000	84.82	64.48	89.75	94.63	90.10	105.43	118.57	171.14
16	75,000	126.23	95.30	131.16	126.04	120.92	136.25	149.39	201.95
17	100,000	167.64	126.11	172.57	167.45	160.21	167.07	180.20	232.77
18	125,000	209.06	156.93	213.98	208.86	201.62	197.88	211.02	263.59
19	150,000	250.47	187.75	255.39	250.27	243.03	228.70	241.84	294.40
20	175,000	291.88	218.56	296.80	291.68	284.45	265.88	272.66	325.22
21	200,000	333.29	249.38	338.21	333.09	325.86	307.29	303.47	356.04
22	250,000	416.11	311.02	421.04	415.92	408.68	390.11	365.11	417.67
23	500,000	830.22	619.18	835.15	830.03	822.79	804.22	779.22	725.84
24	1,000,000	1,658.45	1,235.52	1,663.38	1,658.26	1,651.02	1,632.45	1,607.45	1,554.07
25	2,000,000	3,314.90	2,468.20	3,319.83	3,314.71	3,307.47	3,288.90	3,263.90	3,210.52
26	3,000,000	4,971.35	3,700.87	4,976.28	4,971.16	4,963.92	4,945.35	4,920.35	4,866.97
27	4,000,000	6,627.81	4,933.54	6,632.73	6,627.61	6,620.37	6,601.80	6,576.80	6,523.42
28	5,000,000	8,284.26	6,166.22	8,289.18	8,284.06	8,276.83	8,258.26	8,233.25	8,179.87
29									
30									
31	AVG. NO. OF CUST:	63	4	46	11	97	-	-	-
32									
33	AVG. USE (GAL.):	27,467	31,483	35,697	55,687	144,375	-	-	-
34	MONTHLY BILL:	\$47.50	\$41.66	\$66.05	\$94.05	\$233.72	\$43.80	\$56.94	\$109.50
35									
36	MEDIAN USE (GAL.):	6,978	4,444	10,647	30,500	70,645	-	-	-
37	MONTHLY BILL:	\$14.84	\$10.21	\$30.64	\$60.59	\$115.55	\$43.80	\$56.94	\$109.50

PIMA Utility Company - Water Division Commercial Rate Design
 TEST YEAR ENDED December 31, 2010
 BILLING ANALYSIS - Commercial

DOCKET NO. W-0299A-0329 et al.
 Summary Schedule RBM RD - 6

RUCO RECOMMENDED CHANGES EXPRESSED IN DOLLARS

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH
1	0	\$0.54	\$0.54	\$1.52	\$1.99	\$2.47	\$3.80	\$4.94	\$9.50
2	1,000	0.85	0.51	1.83	2.31	2.78	4.11	5.25	9.82
3	2,000	1.16	0.48	2.14	2.62	3.09	4.43	5.56	10.13
4	3,000	1.47	0.46	2.46	2.93	3.41	4.74	5.88	10.44
5	4,000	1.79	0.43	2.77	3.24	3.72	5.05	6.19	10.75
6	5,000	2.10	0.41	3.08	3.56	4.03	5.36	6.50	11.07
7	6,000	2.41	0.38	3.39	3.87	4.34	5.68	6.81	11.38
8	7,000	2.73	0.35	3.71	4.18	4.66	5.99	7.13	11.69
9	8,000	3.04	0.33	4.02	4.49	4.97	6.30	7.44	12.00
10	9,000	3.35	0.30	4.33	4.81	5.28	6.61	7.75	12.32
11	10,000	3.66	0.27	4.64	5.12	5.59	6.93	8.06	12.63
12	15,000	6.55	1.04	5.41	5.88	6.36	7.69	8.83	13.39
13	20,000	9.43	1.80	6.17	6.65	7.12	8.45	9.59	14.16
14	25,000	12.31	2.56	6.93	7.41	7.88	9.22	10.35	14.92
15	50,000	26.72	6.38	21.35	11.23	11.70	13.03	14.17	18.74
16	75,000	41.13	10.20	35.76	25.64	15.52	16.85	17.99	22.55
17	100,000	55.54	14.01	50.17	40.05	27.81	20.67	21.80	26.37
18	125,000	69.96	17.83	64.58	54.46	42.22	24.48	25.62	30.19
19	150,000	84.37	21.65	78.99	68.87	56.63	28.30	29.44	34.00
20	175,000	98.78	25.46	93.40	83.28	71.05	38.48	33.26	37.82
21	200,000	113.19	29.28	107.81	97.69	85.46	52.89	37.07	41.64
22	250,000	142.01	36.92	136.64	126.52	114.28	81.71	44.71	49.27
23	500,000	286.12	75.08	280.75	270.63	258.39	225.82	188.82	87.44
24	1,000,000	574.35	151.42	568.98	558.86	546.62	514.05	477.05	375.67
25	2,000,000	1,150.80	304.10	1,145.43	1,135.31	1,123.07	1,090.50	1,053.50	952.12
26	3,000,000	1,727.25	456.77	1,721.88	1,711.76	1,699.52	1,666.95	1,629.95	1,528.57
27	4,000,000	2,303.71	609.44	2,298.33	2,288.21	2,275.97	2,243.40	2,206.40	2,105.02
28	5,000,000	2,880.16	762.12	2,874.78	2,864.66	2,852.43	2,819.86	2,782.85	2,681.47
29									
30									
31	AVG. NO. OF CUST:	63	4	46	11	97	-	-	-
32									
33	AVG. USE (GAL.):	27,467	31,483	35,697	55,687	144,375	-	-	-
34	MONTHLY BILL:	\$13.74	\$3.56	\$13.10	\$14.51	\$53.40	-	-	-
35									
36	MEDIAN USE (GAL.):	6,978	4,444	10,647	30,500	70,645	-	-	-
37	MONTHLY BILL:	\$2.72	\$0.42	\$4.74	\$8.25	\$14.85	-	-	-

PIMA Utility Company - Water Division Commercial Rate Design
 TEST YEAR ENDED December 31, 2010
 REVENUE SUMMARY BY METER SIZE AND CUSTOMER CLASS

DOCKET NO. W-0299A-0329 et al.
 Summary Schedule RBM RD - 7

LINE NO.	DESCRIPTION	(A) RUCO PROPOSED MINIMUM REVENUE	(B) RUCO PROPOSED COMMODITY REVENUE	(C) RUCO PROPOSED TOTAL REVENUE
1	5/8 X 3/4 - INCH	\$4,710	\$32,508	\$ 37,218
2	3/4 - INCH	299	1,772	2,071
3	1 - INCH	9,565	29,327	38,892
4	1 1/2 - INCH	3,081	10,722	13,804
5	2 - INCH	32,996	252,492	285,488
6	3 - INCH	-	-	-
7	4 - INCH	-	-	-
8	6 - INCH	-	-	-
9	8 - INCH	-	-	-
10	10 - INCH	-	-	-
11	TOTALS	\$ 50,652	\$ 326,821	\$ 377,473
12	PERCENTAGE OF TOTAL REVENUE	13.42%	86.58%	100.00%

Pima Utility Company - Water Division Irrigation Rate Design
 TEST YEAR ENDED December 31, 2010
 REVENUE COMPARISON - Irrigation

DOCKET NO. W-02199A-11-0329
 Summary Schedule RBM RD - 1

LINE NO.	METER SIZE	PERSENT RATES MONTHLY MINIMUM	PERSENT RATES COMMODITY CHARGE	PERSENT RATES TOTAL REVENUE	COMPANY PROPOSED RATES MONTHLY MINIMUM	COMPANY PROPOSED RATES COMMODITY CHARGE	COMPANY PROPOSED RATES TOTAL REVENUE	RUCO RECOMMENDED RATES MONTHLY MINIMUM	RUCO RECOMMENDED RATES COMMODITY CHARGE	RUCO RECOMMENDED RATES TOTAL REVENUE
1	All Sizes	9,540	302,502	312,042	12,323	588,198	600,520	10,453	420,141	430,594
2	TOTALS	\$ 9,540	\$ 302,502	\$ 312,042	\$ 12,323	\$ 588,198	\$ 600,520	\$ 10,453	\$ 420,141	\$ 430,594
3	PERCENTAGE	3.08%	96.94%	100.00%	2.05%	97.95%	100.00%	2.43%	97.57%	100.00%

Pima Utility Company - Water Division Irrigation Rate Design
TEST YEAR ENDED December 31, 2010
RECOMMENDED RATES - Irrigation

DOCKET NO. W-02199A-11-0329 et al.
Summary Schedule RBM RD - 2

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
1	RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:			
2	All Sizes	180.00	232.50	197.23
3				
4	GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:	1,000	1,000	1,000
5				
6				
7				
8	RECOMMENDED COMMODITY RATES BY METER SIZE			
9				
10				
11	All Sizes			
12	COMMODITY RATE (All Gallons)	\$ 0.36	\$ 0.70	\$ 0.50
13				
14				

Pima Utility Company - Water Division Irrigation Rate Design
 TEST YEAR ENDED December 31, 2010
 MONTHLY MINIMUM CHARGES

DOCKET NO. W-02199A-11-0329 et al.
 Summary Schedule RBM RD - 3

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO RECOMMENDED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	All Sizes	180.00	232.50	52.50	29.17%	197.23	17.23	9.57%
2	GALLONS INCLUDED IN MONTHLY MINIMUM CHARGE	1,000	1,000			1,000		

Pima Utility Company - Water Division Irrigation Rate Design
TEST YEAR ENDED December 31, 2010
BILLING ANALYSIS

DOCKET NO. W-0299A-11-0329 et al.
Summary Schedule RBM RD - 4

PRESENT RATES

LINE NO.	CONSUMPTION IN GALLONS	(A)	
		<u>PRESENT RATES</u>	<u>RUCO REOMMENDED</u>
1	0	\$180.00	\$197.23
2	1,000	180.00	197.23
3	2,000	180.36	197.73
4	3,000	180.72	198.23
5	4,000	181.08	198.73
6	5,000	181.44	199.23
7	6,000	181.80	199.73
8	7,000	182.16	200.23
9	8,000	182.52	200.73
10	9,000	182.88	201.23
11	10,000	183.24	201.73
12	15,000	185.04	204.23
13	20,000	186.84	206.73
14	25,000	188.64	209.23
15	50,000	197.64	221.73
16	75,000	206.64	234.23
17	100,000	215.64	246.73
18	125,000	224.64	259.23
19	150,000	233.64	271.73
20	175,000	242.64	284.23
21	200,000	251.64	296.73
22	250,000	269.64	321.73
23	500,000	359.64	446.73
24	1,000,000	539.64	696.73
25	2,000,000	899.64	1196.73
26	3,000,000	1259.64	1696.73
27	4,000,000	1619.64	2196.73
28	5,000,000	1979.64	2696.73
29			
30			
31	AVG. NO. OF CUST:	4	4
32			
33	AVG. USE (GAL.):	15,854,381	15,854,381
34	MONTHLY BILL:	\$5,887.22	\$8,123.92
35			
36	MEDIAN USE (GAL.):	8,864,900	8,864,900
37	MONTHLY BILL:	\$3,371.00	\$4,629.18

Pima Utility Company - Water Division Irrigation Rate Design
TEST YEAR ENDED December 31, 2010
REVENUE SUMMARY BY METER SIZE AND CUSTOMER CLASS

DOCKET NO. W-0299A-11-0329 et al.
Summary Schedule RBM RD - 5

LINE NO.	DESCRIPTION	(A) RUCO PROPOSED MINIMUM REVENUE	(B) RUCO PROPOSED COMMODITY REVENUE	(C) RUCO PROPOSED TOTAL REVENUE
1				
2				
3				
4				
5	All Sizes	10,453	420,141	430,594
6				
7				
8				
9				
10				
11	TOTALS	\$ 10,453	\$ 420,141	\$ 430,594
12	PERCENTAGE OF TOTAL REVENUE	2.43%	97.57%	100.00%